

INSTRUCTIONS  
OF THE  
COMPTROLLER OF THE CURRENCY  
RELATIVE TO THE  
ORGANIZATION AND POWERS  
OF NATIONAL BANKS

1919



WASHINGTON  
GOVERNMENT PRINTING OFFICE  
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## CONTENTS.

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	Page.
Chapter 1.—Organization of national banks-----	5
Chapter 2.—Conversion of State banks into national banks-----	22
Chapter 3.—Bonds and circulation-----	31
Chapter 4.—Duties and liabilities of directors-----	34
Chapter 5.—Changes in capital stock, extension and reextension of charter, change of name and location, amendments to articles, meetings of shareholders-----	52
Chapter 6.—Powers and limitations-----	76
Chapter 7.—Consolidation of national banks-----	89
Chapter 8.—Liquidation-----	96
Chapter 9.—Branch banks-----	105
Chapter 10.—Trust and savings departments-----	109
Chapter 11.—Banks acting as insurance agents, and as brokers and agents making or procuring loans on real estate-----	119
Chapter 12.—Deposits and rediscounts with Federal Reserve Banks-----	127



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## CHAPTER 1.

### ORGANIZATION OF NATIONAL BANKS.

- |   |  |
|---|--|
| 1. Application to organize.                 | 9. Appointment of officers.                                |
| 2. Capital required.                        | 10. Payment of capital.                                    |
| 3. Investigation by national-bank examiner. | 11. Certificate of authority to commence business.         |
| 4. Approval of application—Instructions.    | 12. Commencement of business.                              |
| 5. Subscriptions to stock.                  | 13. Payment of deferred installments on capital.           |
| 6. Articles of association.                 | 14. Organization of national bank to succeed a State bank. |
| 7. Organization certificate.                |  |
| 8. Election and oaths of directors.         |  |

#### 1. APPLICATION TO ORGANIZE.

The preliminary proceeding in connection with the organization of a national bank is to write to the Comptroller of the Currency requesting the reservation of the desired title and stating the location and the proposed capital.

It is the practice to reserve a title for 15 days, during which time it is expected a formal application will be filed.

If the nationalization of a State bank is contemplated, the request should indicate whether the bank is to be converted into a national bank or placed in liquidation and a national bank organized as its successor. If the State bank is to continue in existence and a separate national bank is to be organized, that fact should be stated.

The application must be signed by at least five persons who are prospective shareholders of the association, and preferably by individuals who are also to be officers or directors. It should be indorsed by three prominent public officials, preferably the mayor and the postmaster of the place where the bank is to be located, and a judge of court.

The exclusion of any professional promoters from the organization will be required, as an application to receive favorable consideration must represent a local demand for banking accommodations.

The following formal application for reservation of title and authority to organize a national bank will be furnished upon request:

#### APPLICATION TO ORGANIZE A NATIONAL BANK.

To the COMPTROLLER OF THE CURRENCY,

*Washington.*

SIR: We, the undersigned, prospective shareholders, being natural persons and of lawful age, intend, with others, to organize a national banking association, under the title of "The \_\_\_\_\_," to be located at \_\_\_\_\_,

county of ———, State of ———, with a capital of \$———, to succeed the  
——— bank of ———. Population, ———.

We request that the title be reserved for a period of sixty days and organization blanks and instructions be sent to ——— ———, who is an actual resident of the place where the proposed bank is to be located.

Signatures of applicants.	Residences.	Business.	Financial strength, in figures.	Shares subscribed.

The signers of this application are known by me to be reputable citizens; the information in reference to their business and financial standing is in my opinion correct, the statement as to population authentic, and I am of the belief that the conditions locally are such as to insure success if the bank is organized and properly managed.

——— ———, *Judge of Court.*

——— ———, *Postmaster.*

——— ———, *Mayor.*

#### READ THESE INSTRUCTIONS CAREFULLY.

The name of the place should form a part of the title, thus, "The First National Bank of A———," but the name of the State should not be included.

Consideration will not be given to an application for a title including the word "First," if a national bank exists at the given locality; nor to an application for a title identical with that of a national bank heretofore in existence, nor to one materially similar to that of a national, State, or other bank existing in the place.

The application must be signed by at least five prospective shareholders, and should be indorsed by three prominent persons, judge of court, postmaster, and mayor, or other public officials.

The correspondent should be a resident of the place where the bank is to be located, a prospective shareholder, and, if possible, an officer or director of the proposed bank.

The following shows the national, State, or private bank with which the applicants are, or have been, connected.

Applicant.	Institution.	Period.

(Date) ——— ———.

(Signed) ——— ———,

*\* Correspondent.*

\* N. B.—The correspondent is requested to furnish, as early as possible, a list of the prospective officers and directors of the proposed organization and a statement showing their previous connection, if any, with other banking institutions.

Care must be exercised in giving information called for on the back of the application. The capacity in which the applicants were connected with other banks should be stated. The list of officers and directors should be promptly furnished as soon as the organization has progressed sufficiently to permit of their determination.

Organization expenses should not include any commissions paid for the sale of stock, or promotion fees, but only such legitimate other expenses as are incident to the actual organization of banks. The capital and surplus must be paid in money and in money only. If any agreement, whether verbal or written, exists to use subsequently any part of the capital stock, surplus, or undivided profits to pay promoters' expenses, or commissions contracted prior to organization, this fact must be reported with the application for charter, as favorable consideration will not be given to any application if there is an agreement to pay expenses not properly allowable.

Information is also desired whether any of the applicants or other persons interested in any manner in the proposed organization have at any time been connected with, or interested in, the organization or attempted organization of any bank, either State or national; if so, the name of the bank or banks and the conditions under which they were organized should be stated.

If the organization is effected, the president and a majority of the directors should be residents of the place where the bank is located.

To avoid delay and unnecessary letter writing all correspondence relating to official matters should be conducted by the local correspondent directly with the Comptroller's office.

Printed headings on the stationery of the organizing bank should indicate clearly that the bank is "organizing" or bear the heading "Organizing Committee."

As the charter number should appear on the bank's permanent letterhead, stationery should not be ordered until the bank is chartered and the charter number obtained. Special numbers can not be reserved and the number can not be determined until the charter is issued.

## 2. CAPITAL REQUIRED.

National banks with a minimum capital of \$25,000 may be organized in places the population of which does not exceed 3,000; with minimum capital of \$50,000 in places the population of which does not exceed 6,000; with minimum capital of \$100,000 in places the population of which does not exceed 50,000; and with minimum capital of \$200,000 in cities with population of over 50,000.

National banks organized in suburban districts included within the political boundaries of a city must have the amount of capital re-



quired by law by a bank organized in the city in question. (Opinion of Attorney General, June 6, 1913.)

### 3. INVESTIGATION BY NATIONAL-BANK EXAMINER.

When an application is transmitted it should be accompanied by a draft for \$100, payable to the order of the Comptroller of the Currency, to cover the expense of investigation. Upon receipt of this draft the chief national-bank examiner for the district will be directed to detail an examiner to make the investigation, the examiner being requested to arrange with the local correspondent in the case as to the date when the investigation is to be made.

In making this investigation the examiner is instructed to give full consideration to all factors entering into the proposition. Among other matters to be considered are: First, the general character and experience of the organizers and of the proposed officers of the new bank; second, the adequacy of existing banking facilities and the need of further banking capital; third, the outlook for the growth and development of the town or city in which the bank is to be located; fourth, the methods and banking practices of the existing bank or banks, the interest rates which they charge to customers, and the character of the service which as quasi-public institutions they are rendering to their community; fifth, the reasonable prospects for success of the new bank if efficiently managed.

In every case where there is a protest, the examiner is directed to see and personally interview those for and against the proposition.

In addition to securing a report from the examiner, made after a personal investigation, the Comptroller obtains a report from the Federal reserve bank of the district; from the State banking department, and from such other sources as he may deem advisable.

### 4. APPROVAL OF APPLICATION—INSTRUCTIONS.

If the application receives the approval of the Comptroller he will furnish all necessary blanks for use in connection with effecting the organization, with instructions for their proper execution, and the title applied for will be reserved for 60 days, during which it is expected the organization of the bank will be completed. When the papers are transmitted the directors should submit over their signatures a statement showing the amounts collected on subscriptions and the expenditures which have been made from the funds collected. The balance remaining, after the purchase of the necessary bonds to secure circulation, if circulation is to be issued, must be deposited with some disinterested bank and the president or cashier of the depository bank requested to certify to this office the amount on

deposit to the credit of the organizing bank. The depositary bank should also be required to accompany the certification with a statement as to whether any part of the amount so deposited is represented by loans made to any of the subscribers to stock secured by shares of stock in the proposed national bank or on other security.

### 5. SUBSCRIPTIONS TO STOCK.

When the proposed incorporators have received advice of the approval of their application to organize, there may be formulated a subscription contract to be signed by the prospective shareholders, which, in addition to the signatures, should give each subscriber's occupation, address, net financial worth, and the number of shares subscribed. (Blanks for this purpose are not furnished by this office.)

The law requires that 50 per cent of the capital stock of a national bank shall be paid in cash and permits the payment of the additional 50 per cent in five equal monthly installments, but there would appear to be no objection to the incorporation in the subscription contract of a provision that the entire amount due on each share shall be paid at the call of the directors.

The Comptroller earnestly recommends to all organizing banks the advisability of selling the capital stock at a premium of 10 per cent or more for the purpose of creating a surplus from which may be paid the necessary expenditures for organization, which, together with the salaries of officers and employees, frequently result in an impairment of capital during the first year or two of a bank's existence.

In this connection emphasis is laid upon the desirability of restricting the investment in a bank building to economical and prudent limits and to an amount not out of proportion to the capital of the bank.

Where a surplus is not created by the payment of a premium on the stock, it is recommended that no dividends be paid until a substantial surplus has been accumulated from the earnings of the bank.

Where the stock is sold at a premium of 20 per cent, a bank is enabled at the first dividend period to distribute the net earnings without carrying any portion thereof to the surplus fund as provided by section 5199.

In case subscriptions to stock are paid in installments, temporary certificates may be issued and the amount of each payment credited thereon. When all installments have been paid the temporary certificates should be surrendered and canceled and permanent certificates of stock issued in lieu thereof.

The following is a form of temporary certificate in general use:

No. —.

TEMPORARY CERTIFICATE.

— shares.

This is to certify that — is entitled to — shares of the capital stock of the — National Bank of —, capital \$—, and that upon payment of all installments, amounting to \$—, and surrender of this temporary certificate, a certificate of stock will be issued.

Witness the seal and the signatures of the president and cashier of the bank.

Dated —, 19—.

The — National Bank of —

By —, Cashier.

President.

#### PAYMENTS ON ACCOUNT OF CAPITAL.

First installment,	—	per cent,	amounting to \$—,	paid —, 19—.	—, Cashier.
Second	"	—	"	—, " —, 19—.	—, Cashier.
Third	"	—	"	—, " —, 19—.	—, Cashier.
Fourth	"	—	"	—, " —, 19—.	—, Cashier.
Fifth	"	—	"	—, " —, 19—.	—, Cashier.
Sixth	"	—	"	—, " —, 19—.	—, Cashier.

#### ASSIGNMENT.

For value received I hereby transfer and assign to — this temporary certificate and hereby appoint and constitute — my true and lawful attorney to transfer said certificate, with full power of substitution in the premises.

Dated at —, this — day of —, 19—.

Witness: —.

#### 6. ARTICLES OF ASSOCIATION.

Five persons at least are required to sign the articles of association, and those who sign the articles must sign and acknowledge the organization certificate. If a majority of the applicants are not interested in the bank as shareholders, a new application will be required. The organization certificate should be executed at the same time as the articles of association or subsequent thereto.

The articles of association and organization certificate, forms of which follow, should be executed in duplicate, one copy of each to be filed in the office of the Comptroller of the Currency and the other retained by the association.

The persons uniting to organize a national bank must be natural persons—that is, individuals who can legally hold and control property in their individual right—and not corporations, firms, or associations of any character.

The proportion of capital required for organization—that is, one-half—must be paid in money, and each subsequent installment must



be so paid until all the capital is paid in. Promissory notes or other evidences of debt can not be taken in payment for subscriptions to capital stock.

Instead of providing, in section 3 of the articles of association, for the election of the first board of directors, the names of the directors may be given therein if the stockholders are agreed as to the persons who are to constitute the board. In this event the third article should read as follows:

The board of directors shall consist of —— shareholders, and the following persons (here insert their names) are hereby appointed directors of this association, to hold their offices as such until the regular annual election takes place, pursuant to the fourth article of these articles of association, and until their successors are chosen and have qualified.

The third section, if desired, may be made to provide for what is termed a sliding scale instead of a fixed number of directors; in other words, a minimum and maximum number of directors, in which event the section should read as follows:

The board of directors shall consist of not fewer than (insert minimum number) nor more than (insert maximum number) shareholders; and the following persons (here insert their names) are hereby appointed directors of this association, to hold their offices as such until the regular annual election takes place, pursuant to the fourth article of these articles of association, and until their successors are chosen and have qualified. The number of directors elected at each annual meeting shall constitute the board for the year, all vacancies to be filled in accordance with the provisions of section 5148.

It will be seen that the only advantage of a sliding scale is that the shareholders are enabled to elect annually any number of directors within the limits of the scale. If a vacancy occurs it must be filled the same as though the articles called for a fixed number of directors.

#### ARTICLES OF ASSOCIATION.

[Executed in duplicate.]

For the purpose of organizing an association to carry on the business of banking under the laws of the United States, the undersigned subscribers for the stock of the association hereinafter named do enter into the following articles of association:

First. The title of this association shall be "The —— ———."

Second. The place where its banking house or office shall be located, and its operations of discount and deposit carried on, and its general business conducted, shall be ——.

Third. The board of directors shall consist of —— shareholders. The first meeting of the shareholders for the election of directors shall be held at —— on the ——, or at such other place and time as a majority of the undersigned shareholders may direct.

Fourth. The regular annual meetings of the shareholders for the election of directors shall be held at the banking house of this association on the second Tuesday of January of each year; but if no election shall be held on that day it may be held on any other day, according to the provisions of section 5149 of

the Revised Statutes of the United States, and all elections shall be held according to such regulations as may be prescribed by the board of directors not inconsistent with the provisions of the national-banking law and of these articles.

Fifth. The capital stock of this association shall be ——— dollars, divided into shares of one hundred dollars each; but the capital may, with the approval of the Comptroller of the Currency, be increased at any time by shareholders owning two-thirds of the stock, according to the provisions of an act of Congress approved May 1, 1886; and in case of the increase of the capital of the association each shareholder shall have the privilege of subscribing for such number of shares of the proposed increase of the capital stock as he may be entitled to according to the number of shares owned by him before the stock is increased.

Sixth. The board of directors, a majority of whom shall be a quorum to do business, shall elect one of its members president of this association, who shall hold his office (unless he shall be disqualified, or be sooner removed by a majority vote of the board) for the term for which he was elected a director. The directors shall have power to elect a vice president, who shall also be a member of the board of directors, and who shall be authorized, in the absence or inability of the president from any cause, to perform all acts and duties pertaining to the office of president, except such as the president only is authorized by law to perform, and to elect or appoint a cashier and such other officers and clerks as may be required to transact the business of the association; to fix the salaries to be paid to them, and continue them in office, or to dismiss them as in the opinion of a majority of the board, the interests of the association may demand.

The directors shall have power to define the duties of the officers and clerks of the association, to require bonds from them, and to fix the penalty thereof; to regulate the manner in which elections of directors shall be held, and to appoint judges of the elections; to make all by-laws that it may be proper for them to make, not inconsistent with law, for the general regulation of the business of the association and the management of its affairs, and generally to do and perform all acts that it may be legal for a board of directors to do and perform under the Revised Statutes aforesaid.

Seventh. This association shall continue for the period of twenty years from the date of the execution of its organization certificate, unless sooner placed in voluntary liquidation by the act of its shareholders owning at least two-thirds of its stock, or otherwise dissolved by authority of law.

Eighth. These articles of association may be changed or amended at any time by shareholders owning a majority of the stock of the association, in any manner not inconsistent with law; and the board of directors or any three shareholders may call a meeting of the shareholders for this or for any other purpose, not inconsistent with law, by publishing notice thereof for thirty days in a newspaper published in the town, city, or county where the bank is located, or by mailing to each shareholder notice in writing thirty days before the time fixed for the meeting.

In witness whereof we have hereunto set our hands this ——— day of ———.  
(To be signed by at least five natural persons, preferably the applicants.)

_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

7. ORGANIZATION CERTIFICATE.

ORGANIZATION CERTIFICATE.

[Executed in duplicate.]

We, the undersigned, whose names are specified in article fourth of this certificate, having associated ourselves for the purpose of organizing an association for carrying on the business of banking, under the laws of the United States, do make and execute the following organization certificate:

- First. The title of the association shall be "The \_\_\_\_\_."
- Second. The said association shall be located in the \_\_\_\_\_ of \_\_\_\_\_, county of \_\_\_\_\_, and State of \_\_\_\_\_, where its operations of discount and deposit are to be carried on.
- Third. The capital stock of this association shall be \_\_\_\_\_ dollars (\$\_\_\_\_\_), and shall be divided into \_\_\_\_\_ shares of one hundred dollars each.
- Fourth. The name, financial worth—net, and the residence of each shareholder of this association, with the number of shares held, are as follows:

Name.	Financial worth—net.	Residence.	No. of shares.

NOTE.—The names, etc., of all the shareholders must be given.

Fifth. This certificate is made in order that we may avail ourselves of the advantages of the aforesaid laws of the United States.

In witness whereof we have herunto set our hands this \_\_\_\_\_ day of \_\_\_\_\_.  
(To be signed and acknowledged by those who have signed the articles of association.)

\_\_\_\_\_.

\_\_\_\_\_.

\_\_\_\_\_.

\_\_\_\_\_.

\_\_\_\_\_.

\_\_\_\_\_.

\_\_\_\_\_.

\_\_\_\_\_.

\_\_\_\_\_.

\_\_\_\_\_.

(Acknowledgment must be made before judge of court or notary public and authenticated by the seal of such court or notary.)

STATE OF \_\_\_\_\_.  
County of \_\_\_\_\_ ss:

Before the undersigned, a \_\_\_\_\_ of \_\_\_\_\_, personally appeared \_\_\_\_\_, to me well known, who severally acknowledged that they executed the foregoing certificate for the purposes therein mentioned.

Witness my hand and seal of office this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

[OFFICIAL SEAL OF OFFICER.]

The association will have succession for a period of 20 years from the date of the execution of the organization certificate, and not from the date of the certificate of the Comptroller of the Currency authorizing the bank to commence business. (See sec. 5136.)

The name, etc., of each subscriber to the stock is required to be given in the fourth subdivision. Signatures are not desired and the names should be typewritten if practicable. Each person who signs the articles of association is also required to sign the organization certificate and make acknowledgment before a judge of court of record or a notary public having a seal.

Inasmuch as the laws of the several States differ as to the rights of married women in regard to their separate estates and property, and as to the effect of covenants and agreements made by them, and also as to the forms of acknowledgment of instruments executed by them, any organization papers bearing the signatures of women must be accompanied by evidence that under the laws of the State they have the power to be parties to the organization.

The authority of a guardian or trustee to subscribe for stock must be shown in every case, giving, if necessary, the order of court authorizing such subscriptions. In cases where a guardian subscribes for a ward, the name of the ward should be given, and in the case of a trustee subscribing for stock the name of the beneficiary of the trust should be given. Stock subscriptions should not be taken in the name of an estate. If the heirs of an estate subscribes for stock, it should be taken in their individual names. If it is subscribed for by the executor, his authority to make such subscription should be shown. An administrator has no authority to subscribe for stock, as his duty is merely to close up the estate and to distribute the property among the heirs, and he has no authority to make investments. No subscriptions to stock should be received in the name of any State, county, township, or municipality.

Where stock is subscribed for in the name of an order or association, it will be necessary to furnish evidence that said order or society is authorized by its articles or charter to subscribe for the stock and also that it is legally and financially responsible for assessment thereon in case one become necessary under the national-bank act.

When the organization of a bank is effected and stock subscriptions paid, certificates should be issued in the names of the shareholders and for the numbers of shares of stock listed in the organization certificate, transfers to be made in the regular manner in the case of any stock which changes ownership.

#### 8. ELECTION AND OATHS OF DIRECTORS.

After the execution of the organization certificate, if the directors are not designated in the articles of association, the shareholders should proceed to elect directors as provided in section 5145. Each director must, after his election or appointment (but not prior to the date of acknowledgment of the organization certificate), take an oath of the following form:



OATH OF DIRECTOR.

STATE OF \_\_\_\_\_,  
County of \_\_\_\_\_, ss:

I, the undersigned, director of The \_\_\_\_\_, located at \_\_\_\_\_, being a citizen of the United States, and resident of the State of \_\_\_\_\_, do solemnly swear (affirm) that I will, so far as the duty devolves on me, diligently and honestly administer the affairs of said association; that I will not knowingly violate, or willingly permit to be violated, any of the provisions of the statutes of the United States under which this association has been organized; and that I am the owner in good faith and in my own right, of the number of shares of stock required by said statutes, subscribed by me or standing in my name on the books of the said association; and that the same is not hypothecated or in any way pledged as security for any loan or debt.

Subscribed and sworn (affirmed) to before the undersigned this \_\_\_\_\_ day of \_\_\_\_\_, 19—.

[OFFICIAL SEAL OF OFFICER.]

\_\_\_\_\_,  
Notary Public.

NOTE.—Each director when elected must take oath of office, and, under section 5147, U. S. R. S., the oath should be transmitted to the Comptroller of the Currency immediately after the election. If the officer administering the oath has no seal, a certificate of the proper State, county, or court official, to the effect that such officer is authorized to take acknowledgments, must be attached.

In case two or more directors qualify jointly the following form should be used:

OATH OF DIRECTORS.

STATE OF \_\_\_\_\_,  
County of \_\_\_\_\_, ss:

We, the undersigned, directors of The \_\_\_\_\_, located at \_\_\_\_\_, being citizens of the United States, and all residents of the State of \_\_\_\_\_, do, each for himself, and not one for the other, solemnly swear (affirm) that we will severally, so far as the duty devolves on us, diligently and honestly administer the affairs of said association; and that we will not knowingly violate, or willingly permit to be violated, any of the provisions of the statutes of the United States under which said association has been organized; and each, for himself, does solemnly swear (affirm) that he is the owner in good faith, and in his own right, of the number of shares of stock required by said statutes, subscribed by him or standing in his name on the books of the said association; and that the same is not hypothecated, or in any way pledged as security for any loan or debt.

Signature.	Signature.

Subscribed and sworn (affirmed) to before the undersigned this — day of \_\_\_\_\_, 19—.

[OFFICIAL SEAL OF OFFICER.]

\_\_\_\_\_,  
Notary Public.

Every director must own in his own right at least 10 shares of the capital stock of the association of which he is a director, unless the capital of the bank shall not exceed \$25,000, in which case he must own in his own right at least 5 shares of such capital stock. Any director who ceases to be the owner of the required number of shares of the stock, or who becomes in any other manner disqualified, thereby vacates his place under section 5146 as amended February 28, 1905, and the vacancy should be at once filled by the remaining directors under section 5148. The former director may be re-appointed if his disqualification has been removed.

At least three-fourths of the directors must have resided in the State, Territory, or District in which the association is located for a year or more immediately preceding their election, and must be residents therein during their continuance in office.

9. APPOINTMENT OF OFFICERS.

The directors having been elected, made payment of at least 50 per cent on the requisite number of shares, and taken the required oath, should, as soon as practicable, elect a president and vice president of the association, a cashier, and such other officers as may be desired, a report of the election, with signatures, of officers being required, in the following form:

OFFICIAL SIGNATURES OF OFFICERS OF THE \_\_\_\_\_, LOCATED AT \_\_\_\_\_, IN  
THE STATE OF \_\_\_\_\_.

Original signatures.	Date of election or appointment.	Names of predecessors.

[SEAL OF BANK.]

IMPORTANT.

The following instructions should be observed to avoid return of paper for correction: (1) Insert title and place of location of bank. (2) Give the signatures of officers, with date of election or appointment. (3) In case of a vacancy, the word "None" should appear in the space for the signature of the officer. (4) Affix seal of bank in the space designated. (5) The signatures of all of the officers, with date of election or appointment of each, and name of predecessor, in case of a change, are required.

10. PAYMENT OF CAPITAL.

When at least 50 per cent of the capital stock of the association is paid in cash, not in assets of another corporation, notes, or other like

evidences of debt, each shareholder or his assignee having paid not less than one-half on each share subscribed (certifications need not be confined originally to 50 per cent, and subsequently to 10 per cent of capital stock, larger payments and in advance of the prescribed time being permissible), and all other legal requirements complied with, a certificate, in substantially the following form, should be executed and sworn to by the president, or cashier, and a majority of the directors and sent to the Comptroller. The certificate should cover all amounts paid in on capital, but should not include any amount paid in as surplus, or any interest which may have been received on funds collected.

CERTIFICATE OF PAYMENT OF CAPITAL STOCK AND COMPLIANCE WITH LEGAL REQUIREMENTS.

The undersigned officers and directors of The \_\_\_\_\_, located at \_\_\_\_\_, now organizing under the provisions of the Revised Statutes of the United States authorizing the organization of national banking associations, do hereby certify that of the authorized capital stock of \$\_\_\_\_\_ there has been paid into said bank in cash, as permanent capital, \$\_\_\_\_\_, exclusive of any payments on surplus, and that no part of this sum is represented by promissory notes or other evidences of debt; and that each shareholder has individually paid in cash fifty per cent of his stock subscription; also, that the name and place of residence of each director, and the amount of stock individually owned in good faith, are as follows:

Name of director. <sup>a</sup>	Place of residence. (Town or city and State.)	Number of shares of stock.

<sup>a</sup>The names, etc., of *all* the directors of the association must appear on this page. A majority of the directors, exclusive of the president or cashier, must sign on the following page and make acknowledgment.

It is further certified that the association has in good faith complied with all of the provisions that are required to be complied with before receiving authority to commence the business of banking.

\_\_\_\_\_,  
\_\_\_\_\_,  
\_\_\_\_\_,  
\_\_\_\_\_,  
\_\_\_\_\_,  
\_\_\_\_\_,  
\_\_\_\_\_,  
\_\_\_\_\_,  
\_\_\_\_\_,  
\_\_\_\_\_,  
\_\_\_\_\_ } *Directors.*

\_\_\_\_\_,  
*President, or Cashier.*

STATE OF \_\_\_\_\_,  
County of \_\_\_\_\_, ss:

Before the undersigned, a \_\_\_\_\_ of \_\_\_\_\_, personally appeared the above-named directors and other officers of the aforesaid national bank, and made

oath that the foregoing certificate and the matters and things therein set forth are true, to the best of their knowledge and belief.

Witness my hand and seal of office this —— day of ——, 19—.

[OFFICIAL SEAL OF OFFICER.]

It will also be necessary to send to this office a statement showing the total amount collected on stock subscriptions. The difference between this amount and the expenditures in connection with the organization should be deposited with a disinterested bank, and the president or cashier of the depository bank requested to certify to this office the amount on deposit to the credit of the organizing bank. The depository bank should also be requested to advise this office whether any loan was made to any of the officers, directors, or stockholders of the new institution, and, if so, on what security.

#### 11. CERTIFICATE OF AUTHORITY TO COMMENCE BUSINESS.

All organization papers having been filed, the Comptroller of the Currency, if satisfied from the examiner's report that the association has complied with the requirements of law, and that the shareholders have, in good faith, organized for the legitimate objects contemplated by the bank act, will give to the association a certificate authorizing it to commence the business of banking (secs. 5168, 5169). This certificate, upon its receipt, must be published in a local or county newspaper for a period of 60 days, as required by section 5170, and proof of publication sent to the Comptroller at the proper time.

This and other certificates referred to elsewhere may be published for the period of time required by law, either in a weekly newspaper, a weekly edition of a daily newspaper, or in every issue of a daily having no weekly edition.

The certificate of authority to commence business or, as is generally understood, the charter issued to a national banking association reads as follows:

No. ——.

TREASURY DEPARTMENT,  
OFFICE OF COMPTROLLER OF THE CURRENCY,  
Washington, —— ———, 19—.

Whereas, by satisfactory evidence presented to the undersigned, it has been made to appear that—

The —— ———, located in the —— of ——, in the county of —— and State of ——, has complied with all the provisions of the statutes of the United States required to be complied with before an association shall be authorized to commence the business of banking.

Now, therefore, I, —— ———, Comptroller of the Currency, do hereby certify that—

The —— ———, located in the —— of ——, in the county of —— and State of ——, is authorized to commence the business of banking, as provided in section fifty-one hundred and sixty-nine of the Revised Statutes of the United States.



In testimony whereof witness my hand and seal of office this — day of —, 19—.

[SEAL.]

\_\_\_\_\_,  
*Comptroller of the Currency.*

## 12. COMMENCEMENT OF BUSINESS.

The association having received authority to commence the business of banking, it is presumed that a suitable banking house or room has been secured, and also a burglar and fire proof vault or safe. In ordering stationery, provision should be made for the printing of the charter number of the bank on letter heads. The Comptroller should be promptly advised of the date on which the bank begins business. Notification blank for the purpose is furnished.

## 13. PAYMENT OF DEFERRED INSTALLMENTS ON CAPITAL.

The certificate of officers and directors, a form for which is given elsewhere, is the certificate of the payment in cash of the first installment of the capital. The five remaining installments must also be paid in money and certified to the Comptroller by the president or cashier, under seal of the bank. Installments are due monthly from the date of the issuance of his certificate of authority to commence business (sec. 5140).

The form of installment certificate is as follows:

### CERTIFICATE OF PAYMENT OF CAPITAL STOCK.

\_\_\_\_\_, 19—.

To the COMPTROLLER OF THE CURRENCY,

*Washington, D. C.*

SIR: It is hereby certified that the — installment, amounting to — dollars, has been paid in cash on account of the capital stock of The —, located at —, the certification of payments to date being as follows:

First installment (at organization), \$—.  
Second installment, \$—.  
Third installment, \$—.  
Fourth installment, \$—.  
Fifth installment, \$—.  
Sixth installment, \$—.  
Total, \$—.

\_\_\_\_\_,  
*Cashier.*

STATE OF —,

*County of —, ss:*

Subscribed and sworn to this — day of —, 19—.

[OFFICIAL SEAL OF OFFICER.]

\_\_\_\_\_,  
*Notary Public.*

NOTE.—The second and subsequent payments need not be restricted to 10 per cent each, as the capital stock of the bank may be paid, if desired, in advance of the time required by law. Do not include in certificates a fraction of a dollar *or any payments on surplus*.

No payments on account of subscriptions to the capital stock should be carried to stock account, or entered in reports of condition as capital stock, until date of certification to this office. Pending such certification payments should be carried in a separate account to the credit of shareholders and entered in reports to this office as "Liabilities other than those stated."

For the legal method of enforcing the payment of subscriptions to capital stock see section 5141, U. S. R. S.

#### 14. ORGANIZATION OF A NATIONAL BANK TO SUCCEED A STATE BANK.

Occasionally it is deemed advisable by directors and other shareholders of a State bank to enter the national banking system by reorganization rather than by conversion. The controlling motive in reorganizing rather than converting in such case is generally the desire to effect such a distribution of stock as will result in the best interests of the bank, and occasionally to provide for a more satisfactory investment of capital and other loanable funds.

The course of procedure in reorganizing in so far as incorporation is concerned is identical with that required in original organization of a national bank. The capital must be paid in cash and not in any assets of the bank the national bank is organized to succeed. Fifty per cent, however, only is required to be paid at reorganization, and the remainder may be paid in installments as provided by the national-bank act.

When the application is forwarded it should be accompanied, as in other cases, by a draft for \$100, payable to the order of the Comptroller of the Currency, to cover the expense of investigation. Upon receipt of this draft the chief national-bank examiner for the district will be directed to detail an examiner to make the investigation, the examiner being instructed to arrange with the local correspondent in the case as to the date when the investigation is to be made. The examiner will be instructed to make a thorough examination of the condition of the bank which the national bank is to succeed, and to report upon the character of its assets and the manner in which its business has been conducted. He will also be required to report upon the character and financial standing of the applicants, the ability of the active executive officers of the bank to be succeeded, whether they have the confidence of the community, and the prospect of success of the new bank.

In addition to securing a report from the examiner, the Comptroller will also obtain a report from the Federal reserve bank of the district: from the State banking department, and from such other sources as he may deem advisable.

Upon receipt of charter, the authority to begin business, the directors have authority to enter into a contract with the directors or liquidating agent of the State bank which the national bank has been organized to succeed for the purchase of assets and assumption of liabilities to depositors and other creditors of the State institution, with the understanding, however, that no assets can be acquired which are not of satisfactory value and which do not conform in character to the requirements of the national bank and Federal reserve bank acts. A duly executed and properly signed copy of the contract in question should be filed with the Comptroller of the Currency together with an agreement signed by the directors to the effect that no assets, the holding of which would contravene the provisions of the national and Federal banking laws will be acquired, a statement of the directors according to the following form to be filed :

We, the undersigned, a majority of the board of directors of the ——— National Bank of ———, in the ——— of ———, State of ———, hereby certify that any assets which may be purchased or otherwise acquired by said national bank from the Bank of ———, will not include real estate, except banking premises, stocks, loans secured by real estate, except such as are permitted by section 24 of the Federal reserve act, nor any loan in excess of 10 per cent of the capital stock of the national bank actually paid in and unimpaired, and 10 per cent of unimpaired surplus fund.

\_\_\_\_\_,  
 \_\_\_\_\_,  
 \_\_\_\_\_,  
*Directors.*  
 \_\_\_\_\_,  
*Notary Public.*

Subscribed and sworn to before me, this \_\_\_\_\_ day of \_\_\_\_\_, 19—.  
 [NOTARY SEAL.]

## CHAPTER 2.

### CONVERSION OF STATE BANKS.

- |  |  |
|--|--|
| 15. Instructions relative to conversion of State banks into national banks.  | 18. Approval of application to convert—Instructions. |
| 16. Application to convert a State bank into a national banking association. | 19. Authority for conversion.                        |
| 17. Examination of State bank converting.                                    | 20. Articles of association.                         |
|  | 21. Organization certificate.                        |
|  | 22. Certificate of payment of capital.               |
|  | 23. Directors and officers.                          |

### 15. INSTRUCTIONS RELATIVE TO CONVERSION OF STATE BANKS INTO NATIONAL BANKS.

Section 5154, U. S. R. S., as amended by section 8 of the Federal reserve act, provides that—

Any bank incorporated by special law of any State or of the United States or organized under the general laws of any State or of the United States and having an unimpaired capital sufficient to entitle it to become a national banking association under the provisions of the existing laws may, by the vote of the shareholders owning not less than fifty-one per centum of the capital stock of such bank or banking association, with the approval of the Comptroller of the Currency, be converted into a national banking association, with any name approved by the Comptroller of the Currency: *Provided, however,* That said conversion shall not be in contravention of the State law. In such case the articles of association and organization certificate may be executed by a majority of the directors of the bank or banking institution, and the certificate shall declare that the owners of fifty-one per centum of the capital stock have authorized the directors to make such certificate and to change or convert the bank or banking institution into a national association. A majority of the directors, after executing the articles of association and the organization certificate, shall have power to execute all other papers and to do whatever may be required to make its organization perfect and complete as a national association.

The shares of any such bank may continue to be for the same amount each as they were before the conversion, and the directors may continue to be directors of the association until others are elected or appointed in accordance with the provisions of the statutes of the United States. When the Comptroller has given to such bank or banking association a certificate that the provisions of this act have been complied with, such bank or banking association, and all its stockholders, officers and employees, shall have the same powers and privileges, and shall be subject to the same duties, liabilities, and regulations, in all respects, as shall have been prescribed by the Federal Reserve act and by the national banking act for associations originally organized as national banking associations.

The Solicitor of the Treasury has held that a trust company organized under State laws may be permitted to convert into a national bank under the provisions of this section, provided it complies with



all the conditions of law, and divests itself of all its trust company business, except such as the Federal Reserve Board might specifically authorize it to retain as provided by the Federal reserve act.

In the conversion of a State bank there is not a dissolution of the State corporation, but merely a change of title and governmental supervision; the bank is liable for all obligations and may enforce all contracts made with it while a State corporation. (See *Michigan Insurance Bank v. Eldred*, 143 U. S. 293, and *Metropolitan National Bank v. Claggett*, 141 U. S., 520.) In the case of *Casey v. Galli* (94 U. S., 673) the Supreme Court of the United States held that no authority from a State is necessary to enable a State bank to become a national banking association. However, under the provisions of section 5154, U. S. R. S., as amended by the Federal reserve act, a State bank can not be converted into a national bank if such conversion is forbidden by the laws of the State.

# 16. APPLICATION TO CONVERT A STATE BANK INTO A NATIONAL BANKING ASSOCIATION.

The following is the form of notice to be submitted of intention to convert a State bank into a national banking association:

The name of the place should form a part of the title, thus, "The First National Bank of A——," but the name of the State should not be included.

Consideration will not be given to an application for a title including the word "First," if a national bank exists at the given locality; nor to an application for a title identical with that of a national bank heretofore in existence, nor to one materially similar to that of a National, State, or other bank existing in the place.

———, 19—.

To the COMPTROLLER OF THE CURRENCY,

*Washington.*

SIR: Notice is hereby given that we, the undersigned, being a majority of the board of directors of "The —— ———," having a paid in and unimpaired capital of \$——, intend to convert the said bank into a national banking association, in accordance with the provisions of section 5154 of the Revised Statutes of the United States as amended by section 8 of the Federal reserve act, under the title "The —— ———," to be located at ————, county of ——, State of ——, with capital of \$——. Population ——.

We request that the title be reserved for a period of sixty days and the necessary conversion papers and instructions sent to —— ———, at —— ———, hereby agreeing that any assets of the State bank which can not be legally held by a national bank will be disposed of before certificate authorizing conversion and the commencement of business as a national banking association is issued.

Signatures of directors.	Residences.

## 17. EXAMINATION OF STATE BANK CONVERTING.

When an application to convert is forwarded it should be accompanied by a draft for \$100, payable to the order of the Comptroller of the Currency, to cover the expense of examination. Upon receipt of this draft the chief national-bank examiner for the district is directed to detail an examiner to make the investigation, the examiner being instructed to arrange with the officers of the bank as to the date when the examination is to be made. The examiner investigates the character and financial standing of the officers and directors, and reports on the manner in which the State bank has been managed, what the officers have accomplished in the community, and also as to the probability of the success of the bank as a national bank. The examiner is also instructed to prepare a list of the assets of the State bank that do not conform to the provisions of the national-bank act or the Federal reserve act.

Under the national banking laws any association may make loans on personal security, and any national banking association not situated in a central reserve city is authorized by section 24 of the Federal reserve act to make loans secured by improved and unencumbered farm land situated within its Federal reserve district or within a radius of 100 miles of the place in which such bank is located, irrespective of district lines, and may also make loans secured by improved and unencumbered real estate located within 100 miles of the place in which such bank is located, irrespective of district lines; but no loan made upon the security of such farm land shall be made for a longer time than five years, and no loan made upon the security of such real estate as distinguished from farm land shall be made for a longer time than one year, nor shall the amount of any such loan, whether upon such farm land or upon such real estate, exceed 50 per cent of the actual value of the property offered as security. Any such bank may make such loans, whether secured by such farm land or such real estate, in an aggregate sum equal to 25 per cent of its capital and surplus or to one-third of its time deposits, and such banks may continue hereafter as heretofore to receive time deposits and to pay interest on the same.

The Federal Reserve Board has power from time to time to add to the list of cities in which national banks shall not be permitted to make loans secured by real estate in the manner described in this section.

National banks are prohibited from investing in real estate other than that necessary to the conduct of the business of the bank, and are restricted in the volume of accommodations to any one person, company, corporation, or firm, etc., to 10 per cent of the capital stock

of the association actually paid and unimpaired and 10 per cent of the unimpaired surplus fund. The courts have held that it is ultra vires of a national banking association to invest in the stock of another corporation.

The restrictions of law relative to excessive loans, loans secured by real estate, and stocks of other corporations, are held to apply to a State bank proposing to convert into a national association, and where assets of the character in question are found, conversion may be expedited by obtaining an agreement signed by the directors and sent with the report to the effect that such assets will be immediately collected or disposed of otherwise.

In addition to securing the report from the examiner, the Comptroller will also obtain a report from the Federal reserve bank of the district; from the State banking department; and from such other sources as he may deem advisable.

#### 18. APPROVAL OF APPLICATION TO CONVERT—INSTRUCTION.

When the application to convert has received the Comptroller's approval, a meeting of the shareholders of the State bank should be called, the notice of the meeting required by the laws of the State or the articles of association or incorporation having been given. At this meeting a resolution should be adopted by a vote representing not less than 51 per cent of the capital stock of the bank authorizing the board of directors to change and convert the bank into a national banking association under the provisions of section 5154, U. S. R. S., and acts amendatory thereof; also authorizing the directors, or a majority thereof, to make and execute the articles of association and organization certificate, and all other papers and certificates, and to do all acts necessary to conversion of the bank into a national banking association.

If it is desired, or is necessary, to increase the capital stock of the State bank, or change the par value of the shares before conversion, the increase or change must be legally effected under the laws of the State, and a certificate from the proper State official obtained showing the increase in capital stock to have been legally effected prior to the date on which the resolution authorizing conversion is adopted by the shareholders.

The minimum number of directors by which the affairs of a national bank can be lawfully managed is five and, if the State bank has less than that number, an increase should be effected under the laws of the State, prior to the execution of any conversion papers other than the application.

19. AUTHORITY FOR CONVERSION.

AUTHORITY FOR CONVERSION OF STATE BANK.

At a meeting of the shareholders of ————, held on ————, the notice of the proposed meeting required by the laws of the State or the articles of association or incorporation of said bank having been given, it was resolved that the board of directors of this bank be authorized to change and convert said bank into a national banking association under the provisions of section 5154 of the Revised Statutes of the United States, or of acts amendatory thereof; and we do also authorize the said directors, or majority thereof, to make and execute the articles of association and organization certificate required to be made or contemplated by said statutes; and also to make and execute all other papers and certificates and to do all acts necessary to convert the said bank into a national banking association; and to do and perform all such acts as may be necessary to transfer the assets of every description and character of the said State bank to the national banking association into which it is to be converted, so that the said conversion may be absolute and complete; and we do hereby assume, and authorize the said directors to assume, as the name of the national banking association into which the said State bank is to be converted, "The ————;" and we do hereby appoint ————, who are now the directors of the said State bank, to be the directors of the said national bank, to hold their offices as such directors until the regular annual election of directors is held, pursuant to the provisions of said Revised Statutes, and until their successors are chosen and qualified; and we do hereby authorize the said directors of the said national bank to continue in office the officers of the said State bank, or to appoint or elect others, as to them may seem best.

The foregoing resolution was adopted by the following vote, representing not less than 51 per cent of the capital stock of ————, no one having acted as proxy who is not authorized to so act under the laws of the State.

Name of shareholder.	Residence.	Name of proxy.	No. of shares.

- Total number of shares voted in favor of the resolution, ———.
- Total number of shares voted against the resolution, ———.
- Total number of shares represented at the meeting, ———.
- Total number of shares of capital stock, ———.

I hereby certify that this is a true and correct report of the vote and of the resolution adopted at a meeting of the shareholders of this bank held on the date mentioned.

[SEAL OF BANK.]

\_\_\_\_\_,  
*President or Cashier.*

Subscribed and sworn to before me this ——— day of ———, A. D. ———.

[SEAL OF NOTARY.]

\_\_\_\_\_,  
*Notary Public.*

20. ARTICLES OF ASSOCIATION.

The shareholders of a State bank having authorized its conversion into a national banking association, the directors should execute the



articles of association and organization certificate as per the following forms, the signatures of a majority of the directors being required:

## ARTICLES OF ASSOCIATION.

[Executed in duplicate.]

We, the undersigned, directors of the ———, having been authorized by a vote of shareholders owning not less than fifty-one per cent of the capital stock of said bank to change and convert the said bank into a national banking association, under the provisions of section 5154 of the Revised Statutes of the United States, or of acts amendatory thereof, and to execute articles of association, do hereby, in our own behalf, and in behalf of the stockholders whom we represent, make and execute the following articles of association:

First. The title of the association into which the said State bank is to be changed and converted shall be "The ———."

Second. The place where its banking house or office shall be located, and its operations of discount and deposit carried on, and its general business conducted shall be the ———, county of ———, State of ———.

Third. The board of directors shall consist of ——— shareholders.

Fourth. The regular annual meetings of the shareholders for the election of directors shall be held at the banking house of this association on the second Tuesday of January of each year; but if no election shall be held on that day it may be held on any other day, according to the provisions of section 5149 of the Revised Statutes of the United States, and all elections shall be held according to such regulations as may be prescribed by the board of directors not inconsistent with the provision of the national banking law and of these articles.

Fifth. The capital stock of this association shall be ——— dollars, divided into shares of ——— dollars each; but the capital may, with the approval of the Comptroller of the Currency, be increased at any time by shareholders owning two-thirds of the stock, according to the provisions of an act of Congress approved May 1, 1886; and in case of the increase of the capital of the association each shareholder shall have the privilege of subscribing for such number of shares of the proposed increase of the capital stock as he may be entitled to according to the number of shares owned by him before the stock is increased.

Sixth. The board of directors, a majority of whom shall be a quorum to do business, shall elect one of its members president of this association, who shall hold his office (unless he shall be disqualified or be sooner removed by a majority vote of the board) for the term for which he was elected a director. The directors shall have power to elect a vice president, who shall also be a member of the board of directors, and who shall be authorized, in the absence or inability of the president from any cause, to perform all acts and duties pertaining to the office of president, except such as the president only is authorized by law to perform, and to elect or appoint a cashier and such other officers and clerks as may be required to transact the business of the association; to fix the salaries to be paid to them and continue them in office, or to dismiss them, as, in the opinion of a majority of the board, the interests of the association may demand.

The directors shall have power to define the duties of the officers and clerks of the association; to require bonds from them and to fix the penalty thereof; to regulate the manner in which elections of directors shall be held, and to appoint judges of the elections; to make all by-laws that it may be proper for them to make, not inconsistent with law, for the general regulation of the business of the association and the management of its affairs, and generally to

do and perform all acts that it may be legal for a board of directors to do and perform under the Revised Statutes aforesaid.

Seventh. This association shall continue for the period of twenty years from the date of the execution of its organization certificate unless sooner placed in voluntary liquidation by the act of its shareholders owning at least two-thirds of its stock, or otherwise dissolved by authority of law.

Eighth. These articles of association may be changed or amended at any time by shareholders owning a majority of the stock of the association in any manner not inconsistent with law; and the board of directors or any three shareholders may call a meeting of the shareholders for this or any other purpose, not inconsistent with law, by publishing notice thereof for thirty days in a newspaper published in the town, city, or county where the bank is located, or by mailing to each shareholder notice in writing thirty days before the time fixed for the meeting.

In witness whereof, we have hereunto set our hands this \_\_\_\_\_ day of \_\_\_\_\_.

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

21. ORGANIZATION CERTIFICATE.

ORGANIZATION CERTIFICATE.

We, the undersigned directors of the \_\_\_\_\_, having been duly authorized by a vote of shareholders owning not less than fifty-one per cent of its capital stock to change and convert said bank into a national banking association, and to make the necessary organization certificate, under the provisions of section 5154 of the Revised Statutes of the United States, or of acts amendatory thereof, do sign and execute the following organization certificate, which we hereby declare we are authorized to make by a vote of shareholders owning not less than fifty-one per cent of the capital stock of the said State bank.

First. The title of this association shall be "The \_\_\_\_\_."

Second. The said association shall be located and continued in the \_\_\_\_\_ of \_\_\_\_\_, county of \_\_\_\_\_, and State of \_\_\_\_\_, where its operations of discount and deposit are to be carried on.

Third. The capital stock of this association shall be \_\_\_\_\_ dollars (\$\_\_\_\_\_), divided into \_\_\_\_\_ shares of \_\_\_\_\_ dollars each, as it is now divided in the said State bank.

Fourth. The name and residence of each of the stockholders of the said State bank, which is to become a national bank under the provisions of the Revised Statutes aforesaid, and the number of shares of \_\_\_\_\_ dollars each held by each stockholder are as follows:

Name.	Residence.	No. of shares.

Fifth. This certificate is made in order that the said State bank and the stockholders thereof may avail themselves of the advantages of the aforesaid

Revised Statutes, and that the said State bank may be changed and converted into a national banking association under the foregoing title.

In witness whereof we have hereunto set our hands this \_\_\_\_\_ day of \_\_\_\_\_.

_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

The signatures of a majority of directors required.  
 Acknowledgement must be before a notary public or judge of court, and authenticated by the seal of such notary or court.

STATE OF \_\_\_\_\_,  
 County of \_\_\_\_\_, ss:

Before the undersigned, a \_\_\_\_\_ of \_\_\_\_\_, personally appeared  
 directors of the aforesaid State bank, to me well known, who severally acknowledged that they executed the foregoing certificate for the purposes therein mentioned.

Witness my hand and seal of office this \_\_\_\_\_ day of \_\_\_\_\_.  
 [OFFICIAL SEAL OF OFFICER.] \_\_\_\_\_,

22. CERTIFICATE OF PAYMENT OF CAPITAL.

CERTIFICATE RELATIVE TO PAYMENT OF CAPITAL STOCK OF STATE BANK CONVERTING INTO NATIONAL BANK.

It is hereby certified that the \_\_\_\_\_ Bank \_\_\_\_\_ of \_\_\_\_\_, which is to be converted into "The \_\_\_\_\_ National \_\_\_\_\_ Bank of \_\_\_\_\_," in conformity with the provisions of section 5154 of the Revised Statutes of the United States, and acts amendatory thereof, authorizing the conversion of "any bank incorporated by special law or any banking institution organized under a general law of any State," has a paid in and unimpaired capital of \$\_\_\_\_\_.

\_\_\_\_\_,  
*President or Cashier.*

STATE OF \_\_\_\_\_,  
 County of \_\_\_\_\_, ss:

Subscribed and sworn to before the undersigned, a \_\_\_\_\_ of the said county, this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.

[OFFICIAL SEAL OF OFFICER.] \_\_\_\_\_,  
 [Official title.] \_\_\_\_\_.

23. DIRECTORS AND OFFICERS.

Duly qualified directors of a State bank being converted into a national bank may continue as directors, regardless of the number of shares owned, until the first annual election is held when, to be eligible for reelection, they must own the number of shares required by the national-bank act. The oaths should be taken as directors of the national bank. Unless officers are reappointed by the directors of the national bank subsequent to their qualification, the form requiring the signatures of the officers of the national bank (a copy

of which follows) should show date of appointment by the directors of the State bank and the following explanatory clause should be added: "Appointed at a meeting of the directors of the State bank."

OFFICIAL SIGNATURES OF OFFICERS OF THE \_\_\_\_\_, LOCATED AT \_\_\_\_\_ IN THE  
STATE OF \_\_\_\_\_.

Original signatures.	Date of election or appointment.	Names of predecessors.

[SEAL OF BANK.]

IMPORTANT.

The following instructions should be observed to avoid return of paper for correction: (1) Insert title and place of location of bank. (2) Give the signatures of officers, with date of election or appointment. (3) In case of a vacancy, the word "None," should appear in the space for the signature of the officer. (4) Affix seal of bank in the space designated. (5) The signatures of all of the officers with date of election or appointment of each and name of predecessor, in case of a change, are required.



### CHAPTER 3.

## BONDS AND CIRCULATION.

- |   |  |
|---|--|
| 24. Deposit of bonds to secure circulation. | 27. Withdrawal of bonds under section 18 of the Federal reserve act. |
| 25. Withdrawal of bonds.                    | 28. Circulating notes.   |
| 26. Authority to withdraw bonds.            |  |

### 24. DEPOSIT OF BONDS TO SECURE CIRCULATION.

Under section 17 of the Federal reserve act approved December 23, 1913, and the amendment of June 21, 1917, a national banking association is not required to deposit United States bonds with the Treasurer of the United States as a condition precedent to beginning business, nor is a bank required to maintain a deposit of such bonds unless it is desired to exercise or continue to exercise the circulation privilege.

If it is the purpose to issue circulation, United States interest-bearing bonds should be sent to the Comptroller of the Currency for transfer to and deposit with the Treasurer of the United States in trust for the association to the account of which they are to be credited. In assigning bonds care should be exercised to enter the exact corporate title of the association and to follow instructions on the bonds relative to their assignment.

Coupon bonds received will be exchanged for registered bonds, but should be accompanied by a request for their exchange and that the registered bonds be issued to and deposited with the Treasurer of the United States in trust for the association interested.

The Comptroller will authorize the payment of interest on bonds to the bank depositing them, and the Treasurer of the United States will pay the interest, by check, to the order of the bank, at the office of any United States assistant treasurer or at any United States depository.

Bonds to be deposited as security for circulation can not be procured from the Treasury Department, but may be purchased at prevailing prices from dealers in securities of that character. Circulation secured by United States 2 per cent "consols" of 1930, and 2 per cent Panama Canal bonds is subject to a semiannual tax of one-fourth of 1 per cent. Circulation secured by bonds bearing a higher rate of interest than 2 per cent is subject to a semiannual tax of one-half of 1 per cent, as provided by section 5214. The only bonds now acceptable as security for national-bank circulation are the 2 per cent consols, 2 per cent Panama Canal bonds, and the 4 per cent bonds of 1925.

## 25. WITHDRAWAL OF BONDS.

The law permits national banking associations to retire their circulating notes and withdraw bonds held by the Treasurer of the United States in trust, with the consent of the Comptroller of the Currency and the approval of the Secretary of the Treasury, upon deposit of a like amount of lawful money with the Treasurer or an assistant treasurer of the United States to provide for the redemption of the currency secured by such bonds.

Authority to withdraw the bonds must be conferred upon the Comptroller of the Currency by the board of directors, and some one other than a Government official designated to sell and assign them. If an official of the bank is authorized to dispose of the bonds, the resolution should be certified by some officer of the association other than the one empowered to assign the bonds.

A copy of the resolution adopted by the directors authorizing the withdrawal of bonds should be sent to the office of the Comptroller of the Currency, accompanied by the Treasurer's duplicate receipts for the securities. If the receipts have been lost or destroyed an affidavit to that effect must be sent with the resolution.

## 26. AUTHORITY TO WITHDRAW BONDS.

## AUTHORITY TO WITHDRAW BONDS.

At a meeting of the board of directors of the \_\_\_\_\_ Bank of \_\_\_\_\_, 19\_\_\_\_, held at their banking house, \_\_\_\_\_, 19\_\_\_\_, the following resolution was adopted:

*Resolved*, That the Comptroller of the Currency be, and he is hereby, authorized to withdraw \$\_\_\_\_\_ U. S. bonds deposited with the Treasury of the United States by this bank to secure circulation, and described as follows:

\$\_\_\_\_\_ of the loan of \_\_\_\_\_

\$\_\_\_\_\_ of the loan of \_\_\_\_\_

\$\_\_\_\_\_ of the loan of \_\_\_\_\_

\$\_\_\_\_\_ of the loan of \_\_\_\_\_

and that \_\_\_\_\_ be, and is hereby authorized to sell, assign, and transfer the bonds, and to appoint one or more attorneys for that purpose.

I hereby certify that the foregoing is a true extract from the minutes of said meeting.

\_\_\_\_\_  
Cashier, and Secretary of the Board of Directors.

[SEAL OF BANK.]

NOTE.—The Treasurer's receipts for the bonds proposed to be withdrawn must be forwarded (with this form properly filled) to the Comptroller of the Currency.

## 27. WITHDRAWAL OF BONDS UNDER SECTION 18 OF THE FEDERAL RESERVE ACT.

Section 18 of the Federal reserve act provides that any member bank desiring to retire the whole or any part of its circulating notes

may file with the Treasurer of the United States an application to sell for its account, at par and accrued interest, United States bonds securing circulation to be retired.

The Federal Reserve Board is permitted in its discretion to require Federal reserve banks to purchase such bonds from the banks whose applications have been filed with the Treasurer of the United States, the Federal reserve banks, however, not being permitted to purchase an amount to exceed \$25,000,000 of such bonds in any one year.

## 28. CIRCULATING NOTES.

National banking associations are entitled to receive and issue circulating notes equal to the par value of the bonds deposited, not exceeding the amount of the paid-in capital stock, but no bank shall receive or have in circulation at any one time more than \$25,000 in notes of the denominations of \$1 and \$2.

For information as to taxation of circulating notes see "Deposit of bonds."

### ORIGINAL ORDER FOR PLATES AND CIRCULATION.

Charter No. —.

—— NATIONAL ——— BANK OF ———,  
—— ———, 19—.

To the COMPTROLLER OF THE CURRENCY.

SIR: You are requested to have plates engraved for this bank, and circulating notes printed therefrom, as follows:

No. of sheets ordered.	Denominations on sheets.	Value per sheet.	Amount of order.
	\$1, \$1, \$1, \$1.....	\$4	
	\$2, \$2, \$2, \$2.....	8	
	\$5, \$5, \$5, \$5.....	20	
	\$10, \$10, \$10, \$10.....	40	
	\$10, \$10, \$10, \$20.....	50	
	\$50, \$50, \$50, \$100.....	250	
	Total.....		

Respectfully,

\_\_\_\_\_  
Cashier.

NOTE.—The act of October 5, 1917, provides for the issuance of \$1 and \$2 notes, repealing the act of June 3, 1864, which prohibited national banks from being furnished with notes of less denomination than \$5 after the resumption of specie payments.

Circulation may be ordered from any one or more of the plates listed above, but no bank shall receive or have in circulation at any one time more than \$25,000 in notes of the denominations of \$1 and \$2.

The restriction as to the issue of \$5 notes to one-third of a bank's circulation has been repealed, and notes of that denomination may be issued in any amount desired not in excess of the capital stock against the deposit of bonds.

It will ordinarily require about 40 days to engrave the plate and to print circulating notes, but the order will not be acted upon until either bonds are deposited for circulation or a draft in payment of cost of engraving is received by the Comptroller.

Bank plates cost \$130 each for originals and \$120 each for duplicates when the originals are worn out.

## CHAPTER 4.

### DUTIES AND LIABILITIES OF DIRECTORS.

- |   |   |
|---|---|
| 29-48. Provisions of law defining duties of directors and prescribing penalties for neglect of such duties. | 52. Examination by directors.   |
| 49, 50. Interlocking directorates—When forbidden.   | 53. Liability of directors for making and publishing false reports.   |
| 51. By-laws to be adopted by directors.   | 54. Liability of directors for mismanagement—Degree of care required. |
|   | 55. Liability of directors for assenting to excessive loans.          |

### PROVISIONS OF LAW DEFINING DUTIES OF DIRECTORS AND PRESCRIBING PENALTIES FOR NEGLECT OF SUCH DUTIES.

#### 29. APPOINTMENT AND POWERS OF DIRECTORS.

(SEC. 5136, U. S. R. S.). Fifth. To elect or appoint directors, and by its board of directors to appoint a president, vice president, cashier, and other officers, define their duties, require bonds of them, and fix the penalty thereof, dismiss such officers or any of them at pleasure, and appoint others to fill their places.

Sixth. To prescribe, by its board of directors, by-laws not inconsistent with law, regulating the manner in which its stock shall be transferred, its directors elected or appointed, its officers appointed, its property transferred, its general business conducted, and the privileges granted to it by law exercised and enjoyed.

Seventh. To exercise by its board of directors, or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; by receiving deposits; by buying and selling exchange, coin, and bullion; by loaning money on personal security; and by obtaining, issuing, and circulating notes according to the provisions of this title.

#### 30. NUMBER AND ELECTION OF DIRECTORS—TERM OF OFFICE.

(SEC. 5145, U. S. R. S.) The affairs of each association shall be managed by not less than five directors, who shall be elected by the shareholders at a meeting to be held at any time before the association is authorized by the Comptroller of the Currency to commence the business of banking; and afterward at meetings to be held on such day in January of each year as is specified therefor in the arti-



cles of association. The directors shall hold office for one year, and until their successors are elected and have qualified.

### 31. QUALIFICATIONS OF DIRECTORS.

(SEC. 5146, U. S. R. S.) Every director must, during his whole term of service be a citizen of the United States, and at least three-fourths of the directors must have resided in the State, Territory, or District in which the association is located, for at least one year immediately preceding their election, and must be residents therein during their continuance in office. Every director must own, in his own right, at least ten shares of the capital stock of the association of which he is a director unless the capital of the bank shall not exceed twenty-five thousand dollars, in which case he must own in his own right at least five shares of such capital stock. Any director who ceases to be the owner of the required number of shares of the stock, or who becomes in any other manner disqualified, shall thereby vacate his place.

### 32. OATH REQUIRED FROM DIRECTORS.

(SEC. 5147, U. S. R. S.) Each director, when appointed or elected, shall take an oath that he will, so far as the duty devolves on him, diligently and honestly administer the affairs of such association, and will not knowingly violate, or willingly permit to be violated, any of the provisions of this title, and that he is the owner in good faith, and in his own right, of the number of shares of stock required by this title, subscribed by him, or standing in his name on the books of the association, and that the same is not hypothecated, or in any way pledged, as security for any loan or debt. Such oath, subscribed by the director making it, and certified by the officer before whom it is taken, shall be immediately transmitted to the Comptroller of the Currency, and shall be filed and preserved in his office.

### 33. VACANCIES, HOW FILLED.

(SEC. 5148, U. S. R. S.) Any vacancy in the board shall be filled by appointment by the remaining directors, and any director so appointed shall hold his place until the next election.

### 34. LIMIT OF LIABILITIES TO AN ASSOCIATION OF ANY PERSON, FIRM, OR CORPORATION FOR MONEY BORROWED—THE DISCOUNT OF BILLS OF EXCHANGE, ETC., NOT MONEY BORROWED.

(SEC. 5200, U. S. R. S.) The total liabilities to any association, of any person, or of any company, corporation, or firm for money borrowed, including in the liabilities of a company or firm the liabilities

of the several members thereof, shall at no time exceed 10 per centum of the amount of the capital stock of such association, actually paid in and unimpaired, and 10 per centum of its unimpaired surplus fund: *Provided, however*, That (1) the discount of bills of exchange drawn in good faith against actually existing values, (2) the discount of commercial or business paper actually owned by the person, company, corporation, or firm negotiating the same, and (3) the purchase or discount of any note or notes secured by not less than a like face amount of bonds of the United States issued since April 24, 1917, or certificates of indebtedness of the United States, shall not be considered as money borrowed within the meaning of this section; but the total liabilities to any association, of any person or of any company, corporation, or firm, upon any note or notes purchased or discounted by such association and secured by such bonds or certificates of indebtedness, shall not exceed (except to the extent permitted by rules and regulations prescribed by the Comptroller of the Currency, with the approval of the Secretary of the Treasury) 10 per centum of such capital stock and surplus fund of such association.

NOTE.—See act of March 3, 1919, "Victory Liberty loan act," which provides that the word "Bonds," where it appears in section 5200 of the Revised Statutes as amended, shall be deemed to include notes issued under the "Victory Liberty loan act."

#### 35. DEPOSITS WITH NONMEMBER BANKS SUBJECT TO LIMIT (SEC. 19, FEDERAL RESERVE ACT).

No member bank shall keep on deposit with any State bank or trust company which is not a member bank a sum in excess of ten per centum of its own paid-up capital and surplus. No member bank shall act as the medium or agent of a nonmember bank in applying for or receiving discounts from a Federal reserve bank under the provisions of this act, except by permission of the Federal Reserve Board.

#### 36. DIVIDENDS AND SURPLUS FUND.

(SEC. 5199, U. S. R. S.) The directors of any association may, semi-annually, declare a dividend of so much of the net profits of the association as they shall judge expedient; but each association shall, before the declaration of a dividend, carry one-tenth part of its net profits of the preceding half year to its surplus fund until the same shall amount to twenty per centum of its capital stock.

#### 37. WITHDRAWAL OF CAPITAL PROHIBITED—DIVIDEND NOT TO EXCEED NET PROFITS—BAD DEBTS DEFINED.

(SEC. 5204, U. S. R. S.) No association, or any member thereof, shall, during the time it shall continue its banking operations, with-

draw, or permit to be withdrawn, either in the form of dividends or otherwise, any portion of its capital. If losses have at any time been sustained by any such association, equal to or exceeding its undivided profits then on hand, no dividend shall be made; and no dividend shall ever be made by any association, while it continues its banking operations, to an amount greater than its net profits then on hand, deducting therefrom its losses and bad debts. All debts due to any association, on which interest is past due and unpaid for a period of six months, unless the same are well secured, and in process of collection, shall be considered bad debts within the meaning of this section. But nothing in this section shall prevent the reduction of the capital stock of the association under section fifty-one hundred and forty-three.

38. PENALTY FOR VIOLATION OF PROVISIONS OF THIS TITLE—VIOLATION,  
HOW DETERMINED—LIABILITY OF DIRECTORS FOR VIOLATION.

(SEC. 5239, U. S. R. S.) If the directors of any national banking association shall knowingly violate, or knowingly permit any of the officers, agents, or servants of the association to violate any of the provisions of this title, all the rights, privileges, and franchises of the association shall be thereby forfeited. Such violation shall, however, be determined and adjudged by a proper circuit, district, or territorial, court of the United States, in a suit brought for that purpose by the Comptroller of the Currency, in his own name, before the association shall be declared dissolved. And in cases of such violation, every director who participated in or assented to the same shall be held liable in his personal and individual capacity for all damages which the association, its shareholders, or any other person shall have sustained in consequence of such violation.

39. PENALTY FOR FALSELY CERTIFYING CHECK.

(SEC. 5208, U. S. R. S.) It shall be unlawful for any officer, director, agent, or employee of any Federal reserve bank, or of any member bank as defined in the act of December twenty-third, nineteen hundred and thirteen, known as the Federal reserve act, to certify any check drawn upon such Federal reserve bank or member bank unless the person, firm, or corporation drawing the check has on deposit with such Federal reserve bank or member bank, at the time such check is certified, an amount of money not less than the amount specified in such check. Any check so certified by a duly authorized officer, director, agent, or employee shall be a good and valid obligation against such Federal reserve bank or member bank: but the act of any officer, director, agent, or employee of any such Federal reserve bank or member bank in violation of this section shall, in the discre-

tion of the Federal Reserve Board, subject such Federal reserve bank to the penalties imposed by section eleven, subsection (h), of the Federal reserve act, and shall subject such member bank if a national bank to the liabilities and proceedings on the part of the Comptroller of the Currency provided for in section fifty-two hundred and thirty-four, Revised Statutes, and shall, in the discretion of the Federal Reserve Board, subject any other member bank to the penalties imposed by section nine of said Federal reserve act for the violation of any of the provisions of said act. Any officer, director, agent, or employee of any Federal reserve bank or member bank who shall willfully violate the provisions of this section, or who shall resort to any device, or receive any fictitious obligation, directly or collaterally, in order to evade the provisions thereof, or who shall certify a check before the amount thereof shall have been regularly entered to the credit of the drawer upon the books of the bank, shall be deemed guilty of a misdemeanor and shall, on conviction thereof in any district court of the United States, be fined not more than \$5,000, or shall be imprisoned for not more than five years, or both, in the discretion of the court.

40. PENALTY FOR EMBEZZLEMENT, MAKING FALSE ENTRIES IN BOOKS, REPORTS, ETC.

(SEC. 5209, U. S. R. S.) Any officer, director, agent, or employee of any Federal reserve bank, or of any member bank as defined in the act of December twenty-third, nineteen hundred and thirteen, known as the Federal reserve act, who embezzles, abstracts, or willfully misapplies any of the moneys, funds, or credits of such Federal reserve bank or member bank, or who, without authority from the directors of such Federal reserve bank or member bank, issues or puts in circulation any of the notes of such Federal reserve bank or member bank, or who, without such authority, issues or puts forth any certificate of deposit, draws any order or bill of exchange, makes any acceptance, assigns any note, bond, draft, bill of exchange, mortgage, judgment, or decree, or who makes any false entry in any book, report, or statement of such Federal reserve bank or member bank, with intent in any case to injure or defraud such Federal reserve bank or member bank, or any other company, body politic or corporate, or any individual person, or to deceive any officer of such Federal reserve bank or member bank, or the Comptroller of the Currency, or any agent or examiner appointed to examine the affairs of such Federal reserve bank or member bank, or the Federal Reserve Board; and every receiver of a national banking association who, with like intent to defraud or injure, embezzles, abstracts, purloins, or willfully misapplies any of the moneys, funds, or as-



sets of his trust, and every person who, with like intent, aids or abets, any officer, director, agent, employee, or receiver in any violation of this section shall be deemed guilty of a misdemeanor, and upon conviction thereof in any district court of the United States shall be fined not more than \$5,000 or shall be imprisoned for not more than five years, or both, in the discretion of the court.

Any Federal reserve agent, or any agent or employee of such Federal reserve agent, or of the Federal Reserve Board, who embezzles, abstracts, or willfully misapplies any moneys, funds, or securities intrusted to his care, or without complying with or in violation of the provisions of the Federal reserve act, issues or puts in circulation any Federal reserve notes shall be guilty of a misdemeanor and upon conviction in any district court of the United States shall be fined not more than \$5,000 or imprisoned for not more than five years, or both, in the discretion of the court.

41. PENALTY FOR MAKING POLITICAL CONTRIBUTIONS, ACT JANUARY 26,  
1907.

That it shall be unlawful for any national bank, or any corporation organized by authority of any laws of Congress, to make a money contribution in connection with any election to any political office. It shall also be unlawful for any corporation whatever to make a money contribution in connection with any election at which presidential and vice presidential electors or a Representative in Congress is to be voted for or any election by any State legislature of a United States Senator. Every corporation which shall make any contribution in violation of the foregoing provisions shall be subject to a fine not exceeding five thousand dollars, and every officer or director of any corporation who shall consent to any contribution by the corporation in violation of the foregoing provisions shall upon conviction be punished by a fine of not exceeding one thousand and not less than two hundred and fifty dollars, or by imprisonment for a term of not more than one year, or both such fine and imprisonment in the discretion of the court.

42. LOANS TO BANK EXAMINERS PROHIBITED.

(SEC. 5, Act Sept. 26, 1918.) That section twenty-two of the Federal reserve act, as amended by the act of June twenty-first, nineteen hundred and seventeen, be further amended and reenacted to read as follows:

(a) No member bank and no officer, director, or employee thereof shall hereafter make any loan or grant any gratuity to any bank examiner. Any bank officer, director, or employee violating this provision shall be deemed guilty of a misdemeanor and shall be imprisoned not exceeding one year or fined not more than \$5,000, or



both; and may be fined a further sum equal to the money so loaned or gratuity given.

Any examiner accepting a loan or gratuity from any bank examined by him or from an officer, director, or employee thereof shall be deemed guilty of a misdemeanor and shall be imprisoned one year or fined not more than \$5,000, or both, and may be fined a further sum equal to the money so loaned or gratuity given, and shall forever thereafter be disqualified from holding office as a national bank examiner.

43. BANK EXAMINERS FORBIDDEN TO PERFORM ANY SERVICE FOR COMPENSATION FOR ANY BANK OR OFFICER, OR TO DISCLOSE INFORMATION ABOUT BANK WITHOUT PERMISSION OF COMPTROLLER.

(b) No national bank examiner shall perform any other service for compensation while holding such office for any bank or officer, director, or employee thereof.

No examiner, public or private, shall disclose the names of borrowers or the collateral for loans of a member bank to other than the proper officers of such bank without first having obtained the express permission in writing from the Comptroller of the Currency, or from the board of directors of such bank, except when ordered to do so by a court of competent jurisdiction, or by direction of the Congress of the United States, or of either House thereof, or any committee of Congress, or of either House duly authorized. Any bank examiner violating the provisions of this subsection shall be imprisoned not more than one year or fined not more than \$5,000, or both.

44. PENALTY FOR OFFICER, DIRECTOR, OR EMPLOYEE RECEIVING ANY FEE OR COMMISSION FOR MAKING LOANS, ETC.

(c) Except as herein provided, any officer, director, employee, or attorney of a member bank who stipulates for or receives or consents or agrees to receive any fee, commission, gift, or thing of value from any person, firm, or corporation, for procuring or endeavoring to procure for such person, firm, or corporation, or for any other person, firm, or corporation, any loan from or the purchase or discount of any paper, note, draft, check, or bill of exchange by such member bank shall be deemed guilty of a misdemeanor and shall be imprisoned not more than one year or fined not more than \$5,000, or both.

45. PURCHASE OF OR SALE TO DIRECTORS OF SECURITIES, ETC., BY BANK.

(d) Any member bank may contract for, or purchase from, any of its directors or from any firm of which any of its directors is a

member, any securities or other property, when (and not otherwise) such purchase is made in the regular course of business upon terms not less favorable to the bank than those offered to others, or when such purchase is authorized by a majority of the board of directors not interested in the sale of such securities or property, such authority to be evidenced by the affirmative vote or written assent of such directors: *Provided, however,* That when any director, or firm of which any director is a member, acting for or on behalf of others, sells securities or other property to a member bank, the Federal Reserve Board by regulation may, in any or all cases, require a full disclosure to be made, on forms to be prescribed by it, of all commissions or other considerations received, and whenever such director or firm, acting in his or its own behalf, sells securities or other property to the bank the Federal Reserve Board, by regulation, may require a full disclosure of all profit realized from such sale.

Any member bank may sell securities or other property to any of its directors, or to a firm of which any of its directors is a member, in the regular course of business on terms not more favorable to such director or firm than those offered to others, or when such sale is authorized by a majority of the board of directors of a member bank to be evidenced by their affirmative vote or written assent: *Provided, however,* That nothing in this subsection contained shall be construed as authorizing member banks to purchase or sell securities or other property which such banks are not otherwise authorized by law to purchase or sell.

46. PAYMENT OF INTEREST ON DEPOSITS TO DIRECTORS TO BE AT A RATE NO GREATER THAN PAID TO OTHER DEPOSITORS.

(e) No member bank shall pay to any director, officer, attorney, or employee a greater rate of interest on the deposits of such director, officer, attorney, or employee than that paid to other depositors on similar deposits with such member bank.

47. PENALTY FOR VIOLATION OF PROVISIONS OF SECTION 22 OF FEDERAL RESERVE ACT.

(f) If the directors or officers of any member bank shall knowingly violate or permit any of the agents, officers, or directors of any member bank to violate any of the provisions of this section or regulations of the board made under authority thereof, every director and officer participating in or assenting to such violation shall be held liable in his personal and individual capacity for all damages which the member bank, its shareholders, or any other persons shall have sustained in consequence of such violation.

## 48. LOANS OF TRUST FUNDS TO DIRECTORS, ETC., PROHIBITED.

Section 11k of the Federal reserve act provides that it shall be unlawful for national banking associations to lend any officer, director, or employee any funds held in trust under the powers conferred by that section, and that any officer, director, or employee making such loan, or to whom such loan is made, may be fined not more than \$5,000 or imprisoned not more than five years, or may be both fined and imprisoned in the discretion of the court.

## 49. INTERLOCKING DIRECTORATES.—WHEN FORBIDDEN (ACT OCT. 15, 1914, AS AMENDED BY ACT MAY 15, 1916).

(SEC. 8.) That from and after two years from the date of the approval of this act no person shall at the same time be a director or other officer or employee of more than one bank, banking association, or trust company organized or operating under the laws of the United States, either of which has deposits, capital, surplus, and undivided profits aggregating more than \$5,000,000; and no private banker or person who is a director in any bank or trust company organized and operating under the laws of a State, having deposits, capital, surplus, and undivided profits aggregating more than \$5,000,000, shall be eligible to be a director in any bank or banking association organized or operating under the laws of the United States. The eligibility of a director, officer, or employee under the foregoing provisions shall be determined by the average amount of deposits, capital, surplus, and undivided profits as shown in the official statements of such bank, banking association, or trust company filed as provided by law during the fiscal year next preceding the date set for the annual election of directors, and when a director, officer, or employee has been elected or selected in accordance with the provisions of this act it shall be lawful for him to continue as such for one year thereafter under said election or employment.

No bank, banking association, or trust company organized or operating under the laws of the United States, in any city or incorporated town or village of more than two hundred thousand inhabitants, as shown by the last preceding decennial census of the United States, shall have as a director or other officer or employee any private banker or any director or other officer or employee of any other bank, banking association, or trust company located in the same place: *Provided*, That nothing in this section shall apply to mutual savings banks not having a capital stock represented by shares: *Provided further*, That a director or other officer or employee of such bank, banking association, or trust company may be a director or other officer or employee of not more than one other bank



or trust company organized under the laws of the United States or any State where the entire capital stock of one is owned by stockholders in the other: *And provided further*, That nothing contained in this section shall forbid a director of class A of a Federal reserve bank, as defined in the Federal reserve act, from being an officer or director, or both an officer and director, in one member bank: *And provided further*, That nothing in this act shall prohibit any officer, director, or employee of any member bank or class A director of a Federal reserve bank, who shall first procure the consent of the Federal Reserve Board, which board is hereby authorized, at its discretion, to grant, withhold, or revoke such consent, from being an officer, director, or employee of not more than two other banks, banking associations, or trust companies, whether organized under the laws of the United States or any State, if such other bank, banking association, or trust company is not in substantial competition with such member bank.

The consent of the Federal Reserve Board may be procured before the person applying therefor has been elected as a class A director of a Federal reserve bank or as a director of any member bank.

\* \* \*

When any person elected or chosen as a director or officer or selected as an employee of any bank or other corporation subject to the provisions of this act is eligible at the time of his election or selection to act for such bank or other corporation in such capacity his eligibility to act in such capacity shall not be affected, and he shall not become or be deemed amenable to any of the provisions hereof by reason of any change in the affairs of such bank or other corporation from whatsoever cause, whether specifically excepted by any of the provisions hereof or not, until the expiration of one year from the date of his election or employment.

#### 50. DIRECTORS OR OTHER OFFICERS OF BANK OR CORPORATION INCORPORATED UNDER THE LAWS OF THE UNITED STATES OR OF ANY STATE AND ENGAGED IN FOREIGN BANKING—WHO MAY BE.

Under the act of September 7, 1916, any director or other officer, agent, or employee of any member bank may, with the approval of the Federal Reserve Board, be a director or other officer, agent, or employee of any bank or corporation chartered or incorporated under the laws of the United States or of any State thereof and principally engaged in international or foreign banking or banking in a dependency or insular possession of the United States either directly or through the agency, ownership, or control of local institutions in foreign countries or in such dependencies or insular possessions in the capital stock of which such member bank shall have invested

without being subject to the provisions of section 8 of the act approved October 15, 1914, entitled "An act to supplement existing laws against unlawful restraints and monopolies, and for other purposes."

#### 51. BY-LAWS TO BE ADOPTED BY DIRECTORS.

##### BY-LAWS.

When a bank is organized the board of directors should adopt by-laws, and send a copy to the Comptroller of the Currency. (Sec. 5136, U. S. R. S.) The following is submitted as a general form that may be modified in any manner deemed expedient, but not in conflict with law or the articles of association:

##### GENERAL FORM OF BY-LAWS OF NATIONAL BANKS.

*By-laws of the [here insert the title of the bank], organized under the national-banking laws of the United States.*

##### ANNUAL MEETING.

SECTION 1. The regular annual meetings of the shareholders of this bank for the election of directors shall be held at its banking house on the day in January of each year provided in the articles of association, between the hours of 10 and 4 of said day. It shall be the duty of the board of directors, within one month prior to the time of said election, to appoint three shareholders to be judges of said election, who shall hold and conduct the same, and who shall, after the election has been held, notify under their hands the cashier of this bank of the result thereof and the names of the directors elect.

SEC. 2. The cashier, upon receiving the returns of the judges of the elections as aforesaid, shall cause the same to be recorded upon the minute book of the bank, and shall notify the directors elect of their election and of the time at which they are required to meet at the banking house of the bank for the purpose of organizing the new board. If at the time fixed for the meeting of the directors elect there is not a quorum in attendance, the members present may adjourn from time to time until a quorum is secured, and no business shall be transacted prior to taking the oath of office as prescribed by law.

SEC. 3. If, for any cause, the annual election of directors is not held on the date fixed in the articles of association, the directors in office shall order an election to be held on some other day, of which special election notice shall be given in accordance with the requirements of section 5149, United States Revised Statutes, judges appointed, returns made and recorded, and the directors elect notified, according to the provisions of sections one and two of these by-laws.

##### OFFICERS.

SEC. 4. The officers of this bank shall be a president, vice president (who shall be members of the board of directors), cashier, and such other officers as may be from time to time required for the prompt and orderly transaction of its business, to be elected or appointed by the board of directors, by whom their several duties shall be prescribed.

SEC. 5. The president shall hold his office for the current year for which the board of which he shall be a member was elected, unless he shall resign,



become disqualified, or be removed; and any vacancy occurring in the office of president or in the board of directors shall be filled by the remaining members.

SEC. 6. The cashier and the subordinate officers and clerks shall be appointed to hold their offices, respectively, during the pleasure of the board of directors.

SEC. 7. The cashier of this bank shall be responsible for all the moneys, funds, and valuables of the bank, and shall give bond, with security to be approved by the board, in the penal sum of ——— dollars, conditioned for the faithful and honest discharge of his duties as such cashier, and that he will faithfully apply and account for all such moneys, funds, and valuables, and deliver the same to the order of the board of directors of this bank, or to the person or persons authorized to receive them.

SEC. 8. The president of this bank shall be responsible for all such sums of money and property of every kind as may be intrusted to his care or placed in his hands by the board of directors or by the cashier, or otherwise come into his hands as president, and shall give bond, with security to be approved by the board, in the penal sum of ——— dollars, conditioned for the faithful discharge of his duties as such president, and that he will faithfully and honestly apply and account for all sums of money and other property of this bank that may come into his hands as such president, and pay over and deliver the same to the order of the board of directors, or to any other person or persons authorized by the board to receive the same.

SEC. 9. The teller shall be responsible for all such sums of money, property, and funds of every description as may from time to time be placed in his hands by the cashier, or otherwise come into his possession as teller; and shall give bond, with security to be approved by the board, in the penalty of ——— dollars, conditioned for the honest and faithful discharge of his duties as teller, and that he will faithfully apply, account for, and pay over all moneys, property, and funds of every description that may come into his hands, by virtue of his office as teller, to the order of the board of directors aforesaid, or to such person or persons as may be authorized to demand and receive the same.

SEAL.

SEC. 10. The following is an impression of the seal adopted by the board of directors of this bank:

{ Impression }  
{ of seal. }

CONVEYANCE OF REAL ESTATE.

SEC. 11. All transfers and conveyances of real estate shall be made by the association, under seal, in accordance with the orders of the board of directors, and shall be signed by the president or cashier.

INCREASE OF STOCK.

SEC. 12. Whenever an increase of stock shall be determined upon, in accordance with law, it shall be the duty of the board to notify all the shareholders of the same, and to cause a subscription to be opened for such increase of capital. In the increase of capital each shareholder shall have the privilege of subscribing for such number of shares of the new stock as he may be entitled to subscribe for, according to his existing stock in the bank. If any shareholder fails

to subscribe for the amount of stock to which he may be entitled, the board of directors may determine what disposition shall be made of the privilege of subscribing for the unsubscribed stock.

#### BANKING HOURS.

SEC. 13. This bank shall be opened for business from — o'clock a. m. to — o'clock p. m. of each day of the year, excepting Sundays and days recognized by the laws of this State as holidays.

#### DIRECTORS' MEETINGS.

SEC. 14. The regular meetings of the board of directors shall be held on the — of each month. When any regular meeting of the board of directors falls upon a holiday, the meetings shall be held on such other day as the board may previously designate. Special meetings may be called by the president, cashier, or at the request of three or more directors.

#### DISCOUNT COMMITTEE.

SEC. 15. There shall be a committee, to be known as the discount committee, consisting of the president, cashier, and — directors appointed by the board every — months, to continue to act until succeeded, who shall have power to discount and purchase bills, notes, and other evidences of debt, and to buy and sell bills of exchange; and who shall, at each regular meeting of the board of directors, submit in writing a report of all bills, notes, and other evidences of debt discounted and purchased by them for the bank since their last report. The board of directors shall approve or disapprove the report of the discount committee, such action to be recorded in the minutes of the meeting.

#### MINUTE BOOK.

SEC. 16. The organization papers of this bank, the returns of the judges of the elections, the proceedings of all regular and special meetings of the directors and of the shareholders, the by-laws and any amendments thereto, and reports of the committees of directors shall be recorded in the minute book; and the minutes of each meeting shall be signed by the president and attested by the cashier.

#### TRANSFERS OF STOCK.

SEC. 17. The stock of this bank shall be assignable and transferable only on the books of this bank, subject to the restrictions and provisions of the national banking laws; and a transfer book shall be provided in which all assignments and transfers of stock shall be made.

SEC. 18. Transfers of stock shall not be suspended preparatory to the declaration of dividends; and, unless an agreement to the contrary shall be expressed in the assignments, dividends shall be paid to the shareholders in whose name the stock shall stand at the date of the declaration of dividends.

SEC. 19. Certificates of stock, signed by the president and cashier, may be issued to shareholders, and the certificates shall state upon the face thereof that the stock is transferable only upon the books of the bank; and when stock is transferred, the certificates thereof shall be returned to the bank, canceled, preserved, and new certificates issued.

## EXPENSES.

SEC. 20. All the current expenses of the bank shall be paid by the cashier, who shall every six months, or oftener if required, make to the board a detailed statement thereof.

## CONTRACTS.

SEC. 21. All contracts, checks, drafts, etc., and all receipts for circulating notes received from the Comptroller of the Currency shall be signed by the president or cashier.

## EXAMINATIONS.

SEC. 22. There shall be appointed by the board of directors a committee of ——— members, exclusive of the president and cashier, whose duty it shall be to examine every six months the affairs of this bank, count its cash, and compare its assets and liabilities with the accounts of the general ledger, ascertain whether the accounts are correctly kept, and the condition of the bank corresponds therewith, and whether the bank is in a sound and solvent condition, and to recommend to the board such changes in the manner of doing business, etc., as shall seem to be desirable; the result of which examination shall be reported in writing to the board at the next regular meeting thereafter.

SEC. 23. The board of directors shall have power to change the form of the books and accounts when deemed expedient and define the manner in which the affairs of the bank shall be conducted.

## QUORUM.

SEC. 24. A majority of all the directors is required to constitute a quorum to do business. Should there be no quorum at any regular or special meeting, the members present may adjourn from day to day until a quorum is in attendance. In the absence of a quorum no business shall be transacted.

## CHANGES IN BY-LAWS.

SEC. 25. These by-laws may be changed or amended by the vote of a majority of the directors.

## 52. EXAMINATION BY DIRECTORS.

In connection with the annual or semiannual examinations made by examining committees or by accountants at the instance of the board of directors, the following suggestions are made as to the general points that should be covered:

(1) The cash should be counted and the total compared with the books of the bank. Cash items should be carefully scrutinized, and any improper items, such as unposted checks held for the purpose of not showing overdrafts, and other items that can not be readily converted into cash, should be reported.

(2) The bonds and other securities of the bank should be examined and those not on hand should be verified by reference to the receipts of the parties with whom they are deposited, and if the receipts are old they should be verified by correspondence. The market value and

the amount at which carried on the books in the aggregate should be shown, and any stocks held by the bank should be listed, with a statement showing the reason the securities were taken by the bank.

(3) The notes should be carefully checked and their total compared with the general ledger. The genuineness, value, and security of each note, and of any collateral thereto, should be carefully determined, and any losses ascertained, or probable, in the judgment of the committee, should be noted. The liabilities of each of the larger borrowers and loans to affiliated interests should be aggregated and carefully considered. The report should also show the general character of the loans—whether well distributed; the general character of the collaterals; whether corporations in which officers or directors are interested borrow to an undue extent; also any large liabilities of the officers or directors. It should also be shown whether all paper claimed by the bank as its own property, including collaterals, is properly indorsed or assigned to it, and all mortgages recorded. Any loans exceeding 10 per cent of the capital and surplus of the bank should be reported. The signatures of all note makers and indorsers should be carefully scrutinized, and any erasures and alterations or any indications of manipulation should be carefully investigated and reported to the full board. All overdue paper should be listed and comment made as to its collectibility.

(4) The certificates of deposit and the cashier's checks should be verified by totaling those outstanding as shown by the register and comparing with the general ledger, and also by comparing the canceled certificates and checks with the register and checking them against the stubs.

(5) The copy retained by the bank of the report of condition made to the Comptroller at the last call should be compared with the bank's books at that date, particularly with reference to the excessive loans and directors' and officers' liabilities reported.

(6) The bank's last reconcilements of accounts with correspondent banks should be compared with the bank's books, and a transcript of the bank's account from the date of the last reconciliation to the date of the examination sent to the correspondent bank with a request for verification. Balances with nonmember banks in excess of 10 per cent of the capital and surplus should be reported.

(7) Individual ledger balances should be verified in such manner as the directors may deem advisable, by calling in pass books, by sending out reconcilements of certain accounts selected by the directors, or in some other suitable way. A trial balance of the ledger should be taken by some member of the committee, or at least by some person other than the clerk engaged on the ledger.

(8) Overdrafts should be totaled and carefully considered, and the report should show any estimated losses.



(9) The committee should consider carefully the "profit and loss" and the "expense" accounts, with a view of determining whether the charges against those accounts are proper, whether the earnings of the bank warrant the expense charges, and whether the bank is making a legitimate profit.

(10) The examining committee should inquire carefully into the arrangement of the working affairs of the bank and ascertain whether any employee who keeps the individual ledger receives deposits or balances pass books; and whether the employees are properly bonded, and in whose custody the bonds are lodged.

(11) Any liability of the bank for borrowed money should be listed, and the proper authority and the necessity for such borrowing ascertained. The total amount of the present liabilities of that nature should be reported to the board, including money borrowed from other banks on certificates of deposit.

The report of the directors or the examining committee should show that these points have been covered, and should recite any deficiencies discovered.

The report should also contain a complete statement of the total assets and liabilities of the bank, with any additions or deductions that in the judgment of the directors should be made as a result of their investigation. There should also be included a detailed statement of the loans which the directors estimate as worthless, doubtful, or insufficiently secured, giving reasons therefor, and as nearly as possible the real value.

A statement should also be made of any matters which in the opinion of the committee affect in any way the bank's solvency, stability, or prosperity.

It is believed that there are few instances where the examining committee can not, if they will take the necessary time, cover these points fully and satisfactorily.

An examination twice a year, along the lines indicated, by a committee of the directors who will give sufficient time to the work to make it thorough and complete, can not fail to be of great benefit to all concerned, and this the directors owe to the shareholders who have placed them in their positions of trust.

A complete report of each examination should be preserved in the files of the bank and be accessible to the bank examiner when examining the bank.

### 53. LIABILITY OF DIRECTORS FOR MAKING AND PUBLISHING FALSE REPORT.

Under the decisions of the Supreme Court of the United States in *Thomas v. Taylor* (224 U. S., 73) and of the United States Circuit Court of Appeals in *Chesbrough et al. v. Woodworth* (195 Fed. Rep.,



875), when the Comptroller of the Currency has notified directors to collect or charge off certain assets it is a warning that those assets are doubtful, and to disregard such a notice and represent the assets in a statement to be good is a violation of law and renders the directors making the statement liable for damages to one deceived thereby.

The Circuit Court of Appeals in the latter case held that while the duty of charging off such worthless paper was that of the board of directors as an entity, and in such matter the board had a reasonable discretion, yet when the duty existed and was wholly unperformed an individual director who is engaged generally in the performance of his functions may be personally liable because of his participation in the failure to act by failing to make reasonable personal efforts to induce the proper action.

In the case referred to (*Chesbrough et al. v. Woodworth*) the plaintiff bought stock in the bank in reliance upon a false report of its condition and had suffered damage thereby. He was held to have a right of action against any officer or director who knowing its falsity had authorized such a report. The court held that the measure of the plaintiff's recovery would be the difference in the fair valuation of his stock if all of the paper had been of a character entitling it to be reported as assets and that sum which would have been a fair minimum valuation if the directors in the exercise of due care and good faith had charged off the books and not reported so much of the paper as they knew or had good reason to believe was not good and collectible.

#### 54. LIABILITY OF DIRECTORS FOR MISMANAGEMENT—DEGREE OF CARE REQUIRED OF DIRECTORS.

The Supreme Court of the United States has held (*Briggs v. Spaulding*, 141 U. S., 132) that directors of a national bank must exercise ordinary care and prudence in the administration of the affairs of a bank, and this includes something more than officiating as figureheads. They are entitled under the law to commit the banking business, as defined, to their duly authorized officers; but this does not absolve them from the duty of reasonable supervision nor ought they to be permitted to be shielded from liability because of want of knowledge of wrongdoing, if that ignorance is the result of gross inattention.

It was further held in the same case that the degree of care required of directors of corporations depends upon the subject to which it is to be applied, and each case is to be determined in view of all the circumstances; that the directors of a corporation are not insurers of the fidelity of the agents whom they appoint and they can not be held responsible for losses resulting from the wrongful acts or

omissions of other directors or agents unless the loss is a consequence of their own neglect of duty.

The United States Supreme Court in a decision rendered June 9, 1919, in the case of *Bowerman v. Hamner*, held that a director who had never attended a meeting during five years' connection with the bank, and who lived 200 miles from the place where the bank was located, was liable for mismanagement because he did not exercise the diligence which a prudent man would usually exercise in ascertaining the condition of the business of the bank or a reasonable control and supervision over its affairs, and that he could not be shielded from liability because of want of knowledge of wrongdoing on his part, since that ignorance was the result of gross inattention in the discharge of his voluntarily assumed and sworn duty.

#### 55. LIABILITY OF DIRECTORS FOR ASSENTING TO EXCESSIVE LOANS.

The United States Circuit Court held (*Rankin v. Cooper et al.*, 149 Fed. Rep., 1010) that it is the duty of directors of a national bank to exercise reasonable control and supervision over its affairs, and to use ordinary care and diligence in ascertaining the condition of its business, which is such care as an ordinarily prudent and diligent man would exercise in view of all the circumstances; and that where the directors of a national bank became aware through the report of a committee of their number, and also by notices sent them individually by the Comptroller of the Currency, that the bank had been making excessive loans to its president and to other persons, firms, and corporations with which he was associated, but took no effective steps to reduce such loans, or to prevent their increase, which continued until the bank became insolvent, they will be held jointly and severally liable for all losses which the bank sustained through subsequent transactions, and which could have been prevented by a proper discharge of their duties.

The United States Circuit Court has held (*Witters, Receiver, etc., v. Sowles et al.*, 31 Fed. Rep., 1) that under Revised Statutes, section 5200, directors of a national bank who make or assent to the making of a loan to any one person of a sum exceeding the legal limit become personally and individually liable for all loss sustained thereby; but where the borrower in such a case is also one of the directors he is not so liable, but simply as a debtor to the bank.

The United States Circuit Court of Appeals in *McCormick v. King et al.*, 241 Fed. Rep., 737, held that directors responsible for excess loans were liable not only for the excess of such loans above the legal limit, but for the entire loss thereon with interest, and this case was affirmed by the Supreme Court of the United States on June 9, 1919, in *Bowerman v. Hamner*.

## CHAPTER 5.

### CHANGES IN CAPITAL—EXTENSION AND REEXTENSION OF CHARTER—CHANGE OF NAME AND LOCATION—AMENDMENTS TO ARTICLES—MEETINGS OF SHAREHOLDERS.

- |   |   |
|---|---|
| 56. Increase of capital stock—Instructions.                               | 62–66. Restoration of impaired capital.     |
| 57. Rights of shareholders in connection with increase of capital.        | 67. Extension of corporate existence.       |
| 58. Form of resolution of shareholders providing for increase of capital. | 68. Withdrawal of dissenting shareholders.  |
| 59. Form of certificate of increase of capital.                           | 69. Reextension of corporate existence.     |
| 60. Reduction of capital stock.   | 70. Change of name or of name and location. |
| 61. Resolution providing for reduction of capital stock.                  | 71. Amendments to articles.                 |
|   | 72. Meetings of shareholders.               |
|   | 73–77. Reports to Comptroller.              |

#### 56. INCREASE OF CAPITAL STOCK—INSTRUCTIONS.

A national banking association may, with the consent of the Comptroller of the Currency and by a vote of shareholders owning two-thirds of the shares, increase its capital stock to any sum approved by the Comptroller.

An association that contemplates increasing its capital stock should advise the Comptroller before formally submitting the question to the shareholders, and if the proposition is approved he will furnish necessary blanks and instructions.

The application to increase capital should be made on the following form, which will be furnished on request:

#### APPLICATION TO INCREASE CAPITAL.

\_\_\_\_\_, 19—.

To the COMPTROLLER OF THE CURRENCY,

*Washington, D. C.*

SIR:

Acting under the authority of a resolution of the board of directors, I request approval of this application to increase the capital stock of The \_\_\_\_\_ National Bank of \_\_\_\_\_ from \$\_\_\_\_\_ to \$\_\_\_\_\_, and that the proper blanks and instructions be furnished.

The stock is to be sold at \$\_\_\_\_\_ per share, and the present shareholders will be permitted to subscribe for new stock in proportion to the amount of stock now held by them.

It is \_\_\_\_\_ proposed to declare a dividend of \_\_\_\_\_ per cent to enable shareholders to make payment on the new stock.

The purchase of the business of the ——— Bank is ——— contemplated in connection with this increase.

On this date the books of this bank show the following:

Capital	-----	\$
Surplus	-----	\$
Undivided profits	-----	\$
Total deposits	-----	\$
Total resources	-----	\$

\_\_\_\_\_,  
*President or Cashier.*

When the Comptroller has advised the bank that the proposition to increase meets with his approval, a meeting of the shareholders should be called after giving the notice required by the articles of association of the national bank; this period is usually 30 days. This notice must state specifically the business to come before the meeting, and should be made in the following form:

You are hereby notified that a special meeting of the stockholders of the ——— Bank will be held at its banking rooms in ———, on ———, at ——— o'clock ———, to consider and vote upon the question of increasing the capital stock of the bank from \$—— to \$——, and for the transaction of such other business as may properly come before the meeting.

\_\_\_\_\_, *Cashier.*

Shareholders who are unable to be present at the meeting may be represented by proxy, but no officer, director, or employee of the association can act as proxy. The following form of proxy may be used:

#### PROXY FOR SPECIAL MEETING OF STOCKHOLDERS.

Know all men by these presents, that I, the undersigned stockholder in the ———, do hereby constitute and appoint ——— my true and lawful attorney with power of substitution for and in my name to vote upon all the stock of said ———, standing in my name, at the special meeting of the stockholders of said bank, to be held at its banking rooms in ———, on ———, at ——— o'clock ———, or at any adjournment thereof, on the question of the proposed increase in capital stock of said national bank, with all the powers the undersigned should possess if present personally at said meeting, or any adjournment thereof, hereby revoking all previous proxies.

In witness whereof, I hereunto set my hand this ——— day of ———, 19——.  
Witness to signature:

\_\_\_\_\_  
Number of shares ———.

After the resolution has been adopted by the shareholders, it is suggested that it would be advisable to adjourn the meeting to a fixed date, or to meet at call of the officers of the bank, so that, if upon examination of the resolution it is found to be in any way informal, a new resolution can be adopted without the necessity of again giving the 30 days' notice.



No increase is valid until the whole amount is paid in cash, certified to the Comptroller, and his certificate of approval is issued. (Sec. 5142; also act of Congress approved May 1, 1886.)

A portion of a proposed increase will not be approved. The whole amount, as stated in the resolution adopted by the vote of the shareholders, must be paid in and the payment certified to the Comptroller. The increase becomes valid upon the issuance of the Comptroller's certificate of approval, prior to which no change should be made in the capital stock account nor certificates of stock issued. If any assets of another bank are to be taken over in connection with the increase an examination to determine their character and value will be required, and no assets may be purchased that are not in conformity with law and of satisfactory value.

#### 57. RIGHTS OF SHAREHOLDERS IN CONNECTION WITH INCREASE OF CAPITAL.

While there is no provision in the national-bank act covering this question, under the common law when the capital stock of a corporation is increased by the issuance of new stock each holder of the original stock has the right to offer to subscribe for and to demand from the corporation such a proportion of the new stock as the number of shares already owned by him bears to the whole number of shares before the increase. This right must be exercised within a fixed or reasonable time, and if a shareholder fails to avail himself of it he is barred by laches or acquiescence of his right to contest the disposition of the stock to some one else. The New York Court of Appeals held (*Stokes v. Continental Trust Co. of New York*, 186 N. Y., 285) that where a stockholder in a domestic corporation consented to an increase of capital stock, but protested against the acceptance of a proposition to sell the new stock, when issued, to a third party at a fixed price, and demanded the right to subscribe and pay for his proportionate share of the new stock at par, which demand was refused by the corporation and a resolution thereafter adopted directing the sale of all the new stock, when issued, to a third party at a fixed price, which was less than the market value of such stock at the time it was issued and delivered, such stockholder, by demanding his proportionate share of the new stock at par, did not thereby waive his right to take it at the fixed price at which it was sold to the outside party, since the price was not fixed until after he had made his demand. After the price was fixed it was the duty of the directors of the corporation to give him an opportunity to purchase at that price before they could sell his property to a third party, even with the approval of a large majority of the stockholders. The stock having been sold to a third party without any opportunity being given to the stockholder to take it at the fixed price, he can recover

from the corporation the difference between the value of his stock at that price and the market value of the stock upon the day it was delivered to the third party.

It will thus be seen that, if the courts follow the decision of the New York Court of Appeals, the officers of a bank would be incurring risks in selling stock to third parties at less than its market value, unless they had previously secured a waiver of the stockholders whose proportion of the new stock was being sold.

If the stock of a national bank is worth more than par, and the new issue is being sold at par, the issuance of new stock naturally will depreciate the book value of all the stock of the bank. The shareholder who does not desire to subscribe to the new stock, but wishes to protect his equity in the assets of the bank, should be given the right to subscribe and be permitted to assign this right to other parties for such consideration as he may be able to obtain therefor. This is the course followed in other corporations. The following is a form for such assignment:

ASSIGNMENT OF RIGHT TO SUBSCRIBE TO NEW CAPITAL STOCK.

The ——— National Bank of ———.

*Subscription warrant.*

This is to certify that ———, a stockholder of record of the ——— National Bank of ——— on this date, holding ——— shares of the ——— National Bank of ———, is entitled to subscribe for ——— shares of the increased capital stock of said bank at \$— per share on ———, and up to and including ———. *Not valid after ———.*

This right may be assigned by properly witnessed signature on the form printed below.

THE NATIONAL BANK OF ———,

By ———, *Cashier.*

For value received, ——— hereby sell, assign, and transfer unto ——— all my rights to subscribe for the within shares of the increased capital stock of the ——— National Bank of ———, subject to the conditions attached by said bank to said rights.

Witness:

———.

In the event that the shareholder desires to subscribe to the stock his subscription can be made on a form similar to the following:

SUBSCRIPTION TO NEW CAPITAL STOCK.

Date ———.

CASHIER ———,

———.

The undersigned hereby subscribes for ——— (———) shares of the capital stock of the ——— of the issue of capital stock authorized by the stockholders of the said bank at a special meeting held on ———; and the undersigned hereby agrees to cause payment for such shares of stock to be made to said bank at ——— at the rate of ——— per share on or before ———. In the event of failure to make said payment in the said time as herein specified,

then this subscription and any rights I may have to subscribe for the said new stock shall be canceled and void.

(Signed) \_\_\_\_\_,  
 Street \_\_\_\_\_,  
 City \_\_\_\_\_. State \_\_\_\_\_.

There is no authority in law for the declaration of a stock dividend by a national bank. Neither the surplus fund nor the undivided profits can be used, except by the declaration of a dividend by the board of directors in the regular course, in which event the shareholders, if they so desire, may use the dividend checks in payment to the extent of their subscriptions to the additional capital. Such portion only of the surplus fund as exceeds the amount required by law to be accumulated, 20 per cent of the capital, can be capitalized in the manner indicated. If the dividend checks are accepted in payment of subscriptions to the stock, the certificate covering payment of the money should be accompanied by a complete report of the dividend, and advice that all dividend checks have been indorsed by the shareholders and returned to the bank. In order to facilitate matters, if desired, authority may be obtained from the shareholders in advance of the issuance of the dividend checks to credit the dividend upon subscriptions to the new capital stock. If it is desired to do this a form similar to the following should be used:

#### AUTHORITY TO CREDIT DIVIDEND UPON SUBSCRIPTION FOR NEW CAPITAL STOCK.

Know all men by these presents, that \_\_\_\_\_, cashier of \_\_\_\_\_, is hereby authorized and instructed to credit upon the subscription of the undersigned to the increased capital stock of the \_\_\_\_\_ authorized at the stockholders' meeting on \_\_\_\_\_ the sum of \_\_\_\_\_ dollars (\$\_\_\_\_\_), which the undersigned is entitled to receive in accordance with vote of board of directors of said bank passed \_\_\_\_\_, declaring a dividend of \_\_\_\_\_ (\$\_\_\_\_\_) per share upon the outstanding capital stock of said bank.

And said \_\_\_\_\_ is hereby further authorized to indorse for me the check in payment of said dividend to be issued in my name by said \_\_\_\_\_, and to apply the proceeds in payment of said subscription to capital stock.

\_\_\_\_\_. [SEAL.]

Date \_\_\_\_\_.

Witness:

\_\_\_\_\_.

#### 58. FORM OF RESOLUTION OF SHAREHOLDERS PROVIDING FOR INCREASE IN CAPITAL.

##### RESOLUTION TO INCREASE CAPITAL STOCK.

No. \_\_\_\_.

At a meeting of the shareholders of The \_\_\_\_\_ National \_\_\_\_\_ Bank of \_\_\_\_\_, held on \_\_\_\_\_, thirty days' notice of the proposed business having been given, it was

*Resolved*, That, under the provisions of the act of May 1, 1886, the capital stock of this association be increased in the sum of \$——, making the total capital \$——.

The foregoing resolution was adopted by the following vote, representing not less than two-thirds of the capital stock of the association, no director, other officer, or employee having acted as proxy:

Name of shareholder.	Residence.	Name of proxy.	Number of shares.
Total number of shares voted in favor of the resolution.....			
Total number of shares voted against the resolution.....			
Total number of shares represented at the meeting.....			
Total number of shares of capital stock.....			

I hereby certify that this is a true and correct report of the vote and of the resolution adopted at a meeting of the shareholders of this bank held on the date mentioned.

[SEAL OF BANK.]

\_\_\_\_\_,  
*President or Cashier.*

Subscribed and sworn to before me, this \_\_\_\_ day of \_\_\_\_\_, A. D. 19—.

[SEAL OF NOTARY.]

\_\_\_\_\_,  
*Notary Public.*

## 59. FORM OF CERTIFICATE OF INCREASE OF CAPITAL.

### CERTIFICATE OF INCREASE OF CAPITAL STOCK.

No. \_\_\_\_.

\_\_\_\_ NATIONAL \_\_\_\_ BANK OF \_\_\_\_.  
\_\_\_\_, 19—.

To the COMPTROLLER OF THE CURRENCY,

*Washington, D. C.*

It is hereby certified that the capital stock of \_\_\_\_ National \_\_\_\_ Bank of \_\_\_\_ has been increased pursuant to the provisions of the act of Congress approved May 1, 1886, in the sum of \_\_\_\_ dollars, all of which has been paid in cash, not in promissory notes or other like evidences of debt, and that the paid-up capital stock of the bank now amounts to \_\_\_\_ dollars.

[SEAL OF BANK.]

\_\_\_\_\_,  
*President or Cashier.*

STATE OF \_\_\_\_\_,

*County of \_\_\_\_\_, ss:*

Subscribed and sworn to before me, this \_\_\_\_ day of \_\_\_\_\_, A. D. 19—.

[SEAL OF NOTARY.]

\_\_\_\_\_,  
*Notary Public.*

## 60. REDUCTION OF CAPITAL STOCK.

A national banking association may, with the consent of the Comptroller of the Currency and of the Federal Reserve Board, and by a vote of shareholders owning not less than two-thirds of the shares, reduce its capital stock to any sum not below the minimum amount required by the national-bank act.



An association that contemplates reducing its capital stock should advise the Federal reserve bank and the Comptroller of the proposed action before formally submitting the question to the shareholders, and the application for authority to reduce the capital should be accompanied by a letter from the Federal reserve bank of the district giving its views with reference to the proposed reduction.

On receipt of the application the Comptroller will advise the bank what conditions, if any, it will be necessary to comply with before the reduction can be approved. If the bank has not been examined within a brief period before the time the application is made, or if the last examination did not show it to be in a satisfactory condition, the Comptroller may order a special examination before passing upon the application to reduce the capital stock.

Any losses which may have been sustained must be charged off, and if the bank has any loans which are excessive or will become excessive by reason of the reduction, they must be reduced to the limit prior thereto, advice of charging off losses and reduction of loans being required. The Comptroller would require the correction of any other conditions that are shown to be unsatisfactory by the examiner's report.

If the proposition is approved the necessary blanks and instructions will be furnished by the Comptroller. It will be necessary to call a special meeting of the shareholders, giving them notice of the date and object of such meeting, in conformity with the articles of association of the bank, unless said notice is unanimously waived. At this meeting no director, other officer, or employee can legally act as proxy and vote the stock of another shareholder. The following is a form of notice of the meeting which may be used:

#### NOTICE OF MEETING OF SHAREHOLDERS.

You are hereby notified that a special meeting of the stockholders of the ——— Bank, will be held at its banking rooms in ——— on ———, at ——— o'clock ——— to consider and vote upon the question of reducing the capital stock of the bank from \$———, to \$———, and for the transaction of such other business as may properly come before the meeting.

\_\_\_\_\_  
Cashier.

The following form of proxy may be used:

#### PROXY FOR SPECIAL MEETING OF STOCKHOLDERS.

Know all men by these presents, that I, the undersigned stockholder in the ———, do hereby constitute and appoint ———, my true and lawful attorney with power of substitution for, and in my name to vote upon all the stock of said, ———, standing in my name at the special meeting of the stockholders of said bank, to be held at its banking rooms in ———, on ———, at ——— o'clock ———, or at any adjournment thereof, on the question of the proposed reduction in capital stock of said national bank, with all the powers

the undersigned should possess if present personally at said meeting, or any adjournment thereof, hereby revoking all previous proxies.

In witness whereof, I hereunto set my hand this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.

Witness to signature:

Number of shares \_\_\_\_\_.

After the resolution has been adopted by the shareholders, it is suggested that it would be advisable to adjourn the meeting to a fixed date, or to meet at call of the officers of the bank, so that, if upon examination of the resolution it is found to be in any way informal, a new resolution can be adopted without the necessity of again giving the 30 days' notice.

The reduction becomes operative upon the issuance of the Comptroller's certificate of approval, prior to which the circulation of the bank must be reduced (if excessive) to not more than the amount of the capital after reduction, by a deposit of lawful money with the Treasurer of the United States and the withdrawal of a like amount of bonds.

Upon transmitting a copy of the resolution adopted by the directors authorizing the withdrawal of bonds it should be accompanied by the Treasurer's duplicate receipts for the securities. If the receipts have been lost or destroyed an affidavit to that effect must be sent with the resolution.

Each shareholder has the right to participate in the reduction in proportion to the number of shares now held, and receive cash for the stock surrendered, unless, as a condition precedent thereto, the whole or a portion of the amount is to be used to charge off losses, in which event the assets so charged off should be trusted and the proceeds distributed among the shareholders of record at the time of the reduction; or, with the consent of all the shareholders, the assets may be realized upon by the bank and the proceeds carried to profit account.

#### 61. RESOLUTION TO REDUCE CAPITAL STOCK.

The following is a form for reporting the resolution of shareholders:

##### RESOLUTION TO REDUCE CAPITAL STOCK.

No. \_\_\_\_\_.

THE \_\_\_\_\_ NATIONAL \_\_\_\_\_ BANK OF \_\_\_\_\_,  
(Date.) \_\_\_\_\_.

At a meeting of the shareholders of The \_\_\_\_\_ National \_\_\_\_\_ Bank of \_\_\_\_\_, held on \_\_\_\_\_, thirty days' notice of the proposed business having been given, at which shareholders were present representing \_\_\_\_\_ shares of stock of this association, it was

*Resolved*, That, under the provisions of section 5143, United States Revised Statutes, and of the acts amendatory thereof, the capital stock of this association be reduced in the sum of \$——, leaving the total capital after said reduction \$——.

The foregoing resolution was adopted by the following vote, representing not less than two-thirds of the capital stock of the association, no director, other officer, or employee having acted as proxy.

Name of shareholder.	Residence.	Name of proxy.	Number of shares.
Total number of shares voted in favor of the resolution .....			
Total number of shares voted against the resolution .....			
Total number of shares represented at the meeting.....			
Total number of shares of capital stock .....			

I hereby certify that the foregoing is a true and correct report of the vote and of the resolution adopted at a meeting of the shareholders of this bank, held on ————.

[SEAL OF BANK.]

\_\_\_\_\_,  
*President or Cashier.*

Subscribed and sworn to before me this ——— day of ———, A. D. ———.

[OFFICIAL SEAL OF OFFICER.]

\_\_\_\_\_,  
*Notary Public.*

No part of the capital set free by reduction can be carried to surplus or to undivided profits without the unanimous consent of the shareholders. When the reduction is made the shareholders should return their old stock certificates. New certificates for the capital as reduced should then be issued. The issuance of fractional shares is not unlawful, but is a matter for determination by the board of directors.

RESTORATION OF IMPAIRED CAPITAL.

62. NOTICE TO BANK OF IMPAIRMENT OF CAPITAL.

If an examination of a national bank discloses losses exceeding the amount of surplus and undivided profits and thus shows an impairment of capital, the bank is written and advised that the losses should be charged off without delay, the formal notice of impairment of capital being inclosed with instructions to make the deficiency good by assessment of the stock or to place the association in voluntary liquidation as required by law.

If the directors or shareholders will unconditionally purchase for cash sufficient of the worthless assets to restore the capital, the formal notice of impairment will be withdrawn.

The following is the form of notice sent to the bank:

## NOTICE OF IMPAIRMENT OF CAPITAL.

TREASURY DEPARTMENT,  
OFFICE OF COMPTROLLER OF THE CURRENCY,  
*Washington, ———, 191—.*

Whereas the capital stock of The ——— ——— has become impaired to the extent of ——— dollars (\$———); and

Whereas section 5205 of the Revised Statutes of the United States provides that every association whose capital stock shall have become impaired by losses or otherwise, shall, within three months after receiving notice thereof from the Comptroller of the Currency, pay the deficiency in the capital stock by assessment upon the shareholders pro rata for the amount of capital stock held by each:

Now, therefore, notice is hereby given said association to pay the said deficiency in its capital stock in the manner provided by said section of the Revised Statutes; and if such deficiency shall not be paid, and said bank shall refuse to go into liquidation, as provided by law, for three months after this notice shall have been received by it, a receiver will be appointed to close up the business of the association, according to the provisions of section 5234 of the Revised Statutes of the United States.

In testimony whereof, I have hereunto subscribed my name and caused my seal of office to be affixed to these presents, at the Treasury Department, in the city of Washington, and District of Columbia, this ——— day of ———, A. D. ———.

[SEAL.]

—————,  
*Comptroller of the Currency.*

## 63. NOTICE TO SHAREHOLDERS OF IMPAIRMENT OF CAPITAL.

As section 5205, United States Revised Statutes, requires an assessment of the stock to make good an impairment of capital to be collected within three months from the date of the receipt of the Comptroller's notice of such impairment, the directors should give each and every shareholder of the association immediate notice of a meeting to be held in 30 days for the purpose of voting on the question of the payment of the assessment or the placing of the association in liquidation, in order that they may be in a position at the end of three months from the date of the receipt of this notice, to advertise as provided by section 4 of the act of June 30, 1876, the sale of the stock of any delinquent shareholder to make good his proportion of the assessment.

At the shareholders' meeting no director, other officer or employee, can act as proxy and vote the stock of another stockholder.

The following is the form of notice to be sent to shareholders:

## NOTICE TO SHAREHOLDERS OF IMPAIRMENT OF CAPITAL.

—————, 19—.

SIR: You are hereby notified that this association has received notice from the Comptroller of the Currency that its capital stock has become impaired and that under the provisions of section 5205, United States Revised Statutes, this



deficiency in the capital stock must be made good by assessment upon the shareholders pro rata to the amount of capital stock held by each, or the bank placed in liquidation.

You are hereby notified that a meeting of the shareholders of this association will be held on the —— day of —— at —— for the purpose of considering and voting upon the question of paying the assessment or placing the bank in liquidation. If an assessment is determined upon, it must be paid in within *three* months from the date of the Comptroller's notice, ——, 19—.

Section 5205, United States Revised Statutes, provides that—

"Every association which shall have failed to pay up its capital stock, as required by law, and every association whose capital stock shall have become impaired by losses or otherwise, shall, within three months after receiving notice thereof from the Comptroller of the Currency, pay the deficiency in the capital stock, by assessment upon the shareholders pro rata for the amount of capital stock held by each; and the Treasurer of the United States shall withhold the interest upon all bonds held by him in trust for any such association, upon notification from the Comptroller of the Currency, until otherwise notified by him. If any such association shall fail to pay up its capital stock, and shall refuse to go into liquidation, as provided by law, for three months after receiving notice from the Comptroller, a receiver may be appointed to close up the business of the association, according to the provisions of section fifty-two hundred and thirty-four."

This section was amended by section 4, act of June 30, 1876, as follows:

"That the last clause of section fifty-two hundred and five of said statutes is hereby amended by adding to the said section the following proviso:

"*And provided*, That if any shareholder or shareholders of such bank shall neglect or refuse, after three months' notice, to pay the assessment, as provided in this section, it shall be the duty of the board of directors to cause a sufficient amount of the capital stock of such shareholder or shareholders to be sold at public auction (after thirty days' notice shall be given by posting such notice of sale in the office of the bank, and by publishing such notice in a newspaper of the city or town in which the bank is located, or in a newspaper published nearest thereto) to make good the deficiency, and the balance, if any, shall be returned to such delinquent shareholder or shareholders."

\_\_\_\_\_,  
\_\_\_\_\_,  
\_\_\_\_\_.

*Directors of* \_\_\_\_\_.

\_\_\_\_\_

#### 64. RESOLUTION TO RESTORE IMPAIRED CAPITAL.

If the shareholders at the meeting vote an assessment upon the stock for the purpose of restoring said impaired capital a report of the resolution should be sent to the Comptroller.

The following is the form for such report:

Office of the Comptroller of the Currency.

#### RESOLUTION TO RESTORE IMPAIRED CAPITAL.

No. ——.

At a meeting of the shareholders of the —— National —— Bank of ——, held on ——, 19—, due notice of the proposed business

having been given, at which shareholders were present in person or by proxy, representing ——— shares of the stock of this Association, it was—

*Resolved*, That, under the provisions of section 5205, U. S. Revised Statutes, the deficiency in the capital stock of this association amounting to \$—— shall be made good by assessment upon the shareholders pro rata on the amount of capital stock held by each.

The resolution was adopted by the following vote:

Name of shareholder.	Residence.	Name of proxy.*	No. of shares.

\* No director, other officer, or employee of the association can legally vote the stock of any other shareholder.

Number of shares voted in favor of the resolution, in person-----

Number of shares voted in favor of the resolution, by proxy-----

Total -----

Number of shares voted against the resolution, in person-----

Number of shares voted against the resolution, by proxy-----

Total -----

Total number of shares represented at the meeting-----

I hereby certify that the above is a true and correct report of the resolution adopted and vote at a meeting of the shareholders of this bank held on ———.

[Seal of bank.]

\_\_\_\_\_,  
*President or Cashier.*

Subscribed and sworn to before me, this ——— day of ———, A. D. —.

[Seal of notary.]

\_\_\_\_\_,  
*Notary Public.*

#### 65. CERTIFICATE OF PAYMENT OF ASSESSMENT.

When the amount of the assessment has been entirely paid in it should be certified to the Comptroller on the following form:

----- NATIONAL ----- BANK OF -----,  
-----, -----, 191-.

To the COMPTROLLER OF THE CURRENCY.

*Washington, D. C.*

It is hereby certified that the sum of ----- dollars, necessary to make good an impairment of the capital stock of The -----, notice of which, dated -----, 191-, was given by the Comptroller of the Currency under the provisions of section 5205, United States Revised Statutes, has been fully paid in cash, and that the paid-up capital stock of said bank now amounts to ----- dollars.

[Seal of Bank.]

-----,  
*Cashier.*

STATE OF \_\_\_\_\_,

County of \_\_\_\_\_, ss.

I, \_\_\_\_\_, cashier of "The \_\_\_\_\_ National \_\_\_\_\_ Bank of \_\_\_\_\_," in the State of \_\_\_\_\_, do solemnly swear that the foregoing certificate by me subscribed is true.

Subscribed and sworn to before me this \_\_\_\_ day of \_\_\_\_\_, 191\_\_.

[Official seal of officer.] \_\_\_\_\_

TREASURY DEPARTMENT,  
Office of Comptroller of the Currency,  
Form 2205,—12-4-13—300.

#### 66. SALE OF STOCK OF DELINQUENT SHAREHOLDERS.

Section 5205, United States Revised Statutes, provides that if any shareholder or shareholders of such bank shall neglect or refuse, after three months' notice, to pay the assessment, as provided in that section, it shall be the duty of the board of directors to cause a sufficient amount of the capital stock of such shareholder or shareholders to be sold at public auction (after 30 days' notice shall be given by posting such notice of sale in the office of the bank, and by publishing such notice in a newspaper of the city or town in which the bank is located, or in a newspaper published nearest thereto), to make good the deficiency, and the balance, if any, shall be returned to such delinquent shareholder or shareholders.

#### 67. EXTENSION OF CORPORATE EXISTENCE.

The act of Congress approved July 12, 1882, authorizes the extension of the corporate existence of national banking associations whose periods of succession are about to expire. Section 5136 provides that all associations organized under the national-bank act shall have succession for 20 years from the date of the execution of their organization certificates.

The officers of a national bank can therefore ascertain the date of the expiration of the corporate existence of the association from the date of the last acknowledgment in the organization certificate. If the certificate has been lost or the date is uncertain, information can be obtained upon application to the Comptroller. Under the act of July 12, 1882, shareholders owning at least two-thirds of capital stock are authorized to give their written consent to extension of corporate existence at any time within two years prior to the expiration of existing charter, and under the regulations of the Comptroller's office the necessary blanks and instructions will be sent a sufficient time in advance to enable them to do so. While no meeting of shareholders is necessary, the law only requiring the written consent of the owners of two-thirds of the capital stock, there is no legal objection to the holding of a meeting of shareholders for the purpose of considering the propriety of extending charter prior to

the signing of the amendment. The formal amendment, certificate relative thereto, and request for approval to be executed and filed with the Comptroller are as follows:

## AMENDMENT OF ARTICLES OF ASSOCIATION OF NATIONAL BANK.

In accordance with and in pursuance of the provisions of "An act to enable national banking associations to extend their corporate existence, and for other purposes," approved July 12, 1882, we, the undersigned, shareholders of "The ————," located at ————, in the county of ———— and State of ————, owning the number of shares of the capital stock of said association set opposite our respective names, aggregating not less than two-thirds of the stock of said association, do hereby consent and agree that the ———— article of the articles of association of said national banking association be, and is hereby, amended to read as follows:

"This association shall continue until close of business on ————, 19—, unless sooner placed in voluntary liquidation by the act of its shareholders owning at least two-thirds of its stock, or otherwise dissolved by authority of law."

In witness whereof we, the undersigned, have hereto set our hands.

Date of signing.	Signature of shareholder.	Address.	Signature of proxy.	Number of shares.

## CERTIFICATE.

To the COMPTROLLER OF THE CURRENCY,

*Washington, D. C.*

SIR: In pursuance of the provisions of "An act to enable national banking associations to extend their corporate existence, and for other purposes," approved July 12, 1882, I hereby certify that shareholders owning not less than two-thirds of the capital stock of "The ————" have consented in writing to the extension of the charter of said association; that the signatures to the attached amendment of the articles of association, executed in duplicate, are the true and correct signatures of said shareholders, or of their lawfully appointed attorneys, and that one of the instruments, in all respects like the other, is on file in the bank.

The foregoing certificate is made under seal of the association in accordance with a resolution of the board of directors adopted at a meeting held on the ———— day of ————, 19—, in which the president or cashier was also authorized to make an application for the approval of the amended articles of association, a copy of which resolution has been recorded on the minute book of the bank.

[SEAL OF BANK.]

\_\_\_\_\_,  
*President or Cashier.*

(The above certificate should not be made prior to date on which the amendment is last signed.)



## REQUEST FOR APPROVAL.

The Comptroller of the Currency is hereby requested to approve the foregoing amendment of the articles of association of said bank, extending its corporate existence for twenty years, pursuant to the act of Congress entitled "An act to enable national banking associations to extend their corporate existence, and for other purposes," approved July 12, 1882.

\_\_\_\_\_,  
President or Cashier.

## PROXY FOR USE IN EXTENDING CORPORATE EXISTENCE OF NATIONAL BANKS.

Know all men by these presents, that I, \_\_\_\_\_, of \_\_\_\_\_, hereby constitute and appoint irrevocably \_\_\_\_\_ my true and lawful attorney, for me and in my name and stead to sign all necessary papers in connection with the extension of the corporate existence of the \_\_\_\_\_, under the act of Congress approved July 12, 1882, or any amendment of said act, and I hereby consent that the \_\_\_\_\_ article of the articles of association of the \_\_\_\_\_ be so amended as to read as follows:

"This association shall continue until close of business on \_\_\_\_\_, unless sooner placed in voluntary liquidation by the act of its shareholders owning at least two-thirds of its stock, or otherwise dissolved by authority of law."

I further grant unto my said attorney full power and authority to act in and concerning the premises as fully and effectually as I might do if personally present.

In witness whereof I have hereunto set my hand this \_\_\_\_\_ day of \_\_\_\_\_, in the year one thousand nine hundred and \_\_\_\_\_.

Signed in the presence of two witnesses:

\_\_\_\_\_,  
\_\_\_\_\_.

## AUTHORITY OF REPRESENTATIVE OF OTHER CORPORATION CONSENTING TO EXTENSION OF CORPORATE EXISTENCE OF NATIONAL BANK.

At a meeting of the \_\_\_\_\_ of the \_\_\_\_\_ of \_\_\_\_\_, held on the \_\_\_\_\_ day of \_\_\_\_\_, it was voted that \_\_\_\_\_ be, and he is hereby, appointed irrevocably as its attorney, with power of substitution, to consent to and sign, in its behalf, the amendment of the \_\_\_\_\_ article of the articles of association of The \_\_\_\_\_ National \_\_\_\_\_ Bank \_\_\_\_\_, said amendment reading as follows:

"This association shall continue until close of business on \_\_\_\_\_, unless sooner placed in voluntary liquidation by the act of its shareholders owning at least two-thirds of its stock, or otherwise dissolved by authority of law."

A true copy from the records.

Attest:

\_\_\_\_\_. [Affix seal.]

## EXTENSION OF CHARTER—ORDER FOR PLATES AND CIRCULATION.

Charter No. \_\_\_\_\_.

\_\_\_\_\_ NATIONAL \_\_\_\_\_ BANK OF \_\_\_\_\_,  
\_\_\_\_\_, 19—.

To the COMPTROLLER OF THE CURRENCY.

SIR: As the corporate existence of this bank is to be legally extended for 20 years, you are requested to have new plates engraved, the cost to be paid upon demand, and circulating notes printed therefrom, as follows:

No. of sheets ordered.	Denominations on sheets.	Value per sheet.	Amount of order.
	\$1, \$1, \$1, \$1.....	\$4	\$
	\$2, \$2, \$2, \$2.....	8	
	\$5, \$5, \$5, \$5.....	20	
	\$10, \$10, \$10, \$10.....	40	
	\$10, \$10, \$10, \$20.....	50	
	\$50, \$50, \$50, \$100.....	250	
	Total.. ..		

Respectfully,

\_\_\_\_\_,  
Cashier.

NOTE.—The act of July 12, 1882, requires that circulating notes issued to banks subsequent to extension of corporate existence shall bear such devices as shall make them readily distinguishable from prior issues.

The act of October 5, 1917, provides for the issuance of \$1 and \$2 notes, repealing the act of June 3, 1864, which prohibited national banks from being furnished with notes of less denomination than \$5 after the resumption of specie payments.

Circulation may be ordered from any one or more of the plates listed above, but no bank shall receive or have in circulation at any one time more than \$25,000 in notes of the denominations of \$1 and \$2.

The restriction as to the issue of \$5 notes to one-third of a bank's circulation has been repealed, and notes of that denomination may be issued in any amount desired not in excess of the capital stock against the deposit of bonds.

It will ordinarily require about 40 days to engrave the plate and to print circulating notes, but the order will not be acted upon until either bonds are deposited for circulation or a draft in payment of cost of engraving is received by the Comptroller.

Bank plates cost \$130 each for originals and \$120 each for duplicates when the originals are worn out.

This order should accompany the amendment providing for the extension of the corporate existence of the association.

The following instructions should be strictly observed: The date on which each shareholder or his attorney signs the amendment should be entered in the column for that purpose. An attorney representing several shareholders need sign but once on a page, if the names of shareholders are bracketed. Residence and number of shares of each shareholder consenting to the extension must be given.

When the owners of at least two-thirds of the stock have signed the amendment, in person or by proxy, a meeting of directors should be held and a resolution adopted directing the president or cashier to make the necessary certification to the Comptroller of the Currency and request the approval of the amendment as provided by law. The amendment, with appended certificate, and request for approval should be transmitted to the Comptroller at least two months prior to the expiration of the corporate existence of the bank in order to allow sufficient time to cause the special examination to be made as required by law. If any shares of stock standing in the names of administrators, executors, trustees, or guardians are represented, certified copies of the legal appointment of such administrators, executors, trustees, or guardians should be furnished to the bank. In order that stock held by an assignee may be represented, the shares must have been

formally transferred to him on the books of the bank. If the amendment is signed by attorneys acting for shareholders or by an officer of another corporation, properly executed powers of attorney or other authority should be required and retained for the files of the bank.

Subsequent to the receipt of extension papers in due form, the Comptroller will order the special examination required by law, the expense of which must be paid by the bank. If it then appears to the Comptroller that the bank is in a satisfactory condition he will, at the date of expiration of existing charter, issue the certificate of extension.

The law requires that circulating notes issued to the bank after the date at which the period of succession begins shall be of different devices from those issued before. This necessitates the procuring of new plates, which are prepared at the expense of the bank. A blank to enable a bank to order the engraving of plates and the printing of new circulars will be furnished. The order should be transmitted with the amendment.

No transfer of bonds is necessary, as the extended association is, in all respects, the same as before extension. The new circulating notes will be issued as the old issues are received for redemption.

#### 68. WITHDRAWAL OF DISSENTING SHAREHOLDERS.

Some shareholders may not assent to the extension, and may wish to withdraw from the association. Section 5 of the act of July 12, 1882, provides what may be done in such cases, as follows:

That when any national banking association has amended its articles of association as provided in this act, and the Comptroller has granted his certificate of approval, any shareholder not assenting to such amendment may give notice in writing to the directors, within thirty days from the date of the certificate of approval, of his desire to withdraw from said association, in which case he shall be entitled to receive from said banking association the value of the shares so held by him, to be ascertained by an appraisal made by a committee of three persons, one to be selected by such shareholder, one by the directors, and the third by the first two; and in case the value so fixed shall not be satisfactory to any such shareholder he may appeal to the Comptroller of the Currency, who shall cause a reappraisal to be made, which shall be final and binding; and if said reappraisal shall exceed the value fixed by said committee, the bank shall pay the expenses of said reappraisal, and otherwise the appellant shall pay said expenses; and the value so ascertained and determined shall be deemed to be a debt due, and be forthwith paid, to said shareholder, from said bank; and the shares so surrendered and appraised shall, after due notice, be sold at public sale, within thirty days after the final appraisal provided in this section.

The United States Circuit Court of Appeals in the case of *J. W. Conway v. First National Bank of Rome, Ga.* (decided on Mar. 1, 1919) held that the notice of a nonassenting shareholder of a national

banking association amending its articles of association to extend its period of succession, provided for in section 5 of the act of July 12, 1882, must be given to the directors after the Comptroller of the Currency has certified his approval of the amended articles and within 30 days of the date of such approval. The court, after stating that notice must be given to the directors, held that the president could neither receive nor waive the notice for them, and that it would not be competent for the directors to vest the president with authority to waive the statutory requirements of notice in advance.

### 69. REEXTENSION OF CORPORATE EXISTENCE.

The act of Congress approved April 12, 1902, provides that the Comptroller of the Currency may, in the manner provided by and under the conditions and limitations of the act of July 12, 1882, extend for a further period of 20 years the charter of any national banking association extended under said act which shall desire to continue its existence after the expiration of its charter. The form of amendment and certificate follows:

#### REEXTENSION OF CHARTER—AMENDMENT OF ARTICLES OF ASSOCIATION OF NATIONAL BANK.

In accordance with and in pursuance of the provisions of "An act to enable national banking associations to extend their corporate existence, and for other purposes," approved July 12, 1882, and the amendment approved April 12, 1902, we, the undersigned, shareholders of "The ————," located at ————, in the county of ———— and State of ————, owning the number of shares of the capital stock of said association set opposite our respective names, aggregating not less than two-thirds of the stock of said association, do hereby consent and agree that the ———— article of the articles of association of said national banking association be, and is hereby, amended to read as follows:

"This association shall continue until close of business on ————, 19—, unless sooner placed in voluntary liquidation by the act of its shareholders owning at least two-thirds of its stock, or otherwise dissolved by authority of law."

In witness whereof we, the undersigned, have hereto set our hands.

Date of signing.	Signature of shareholder.	Address.	Signature of proxy.	Number of shares.

———, 19—.

TO THE COMPTROLLER OF THE CURRENCY,

*Washington, D. C.*

SIR: In pursuance of the provisions of "An act to enable national banking associations to extend their corporate existence, and for other purposes," approved July 12, 1882, and the amendment approved April 12, 1902, I hereby certify that shareholders owning not less than two-thirds of the capital stock



of "The ————," have consented in writing to the reextension of the charter of said association; that the signatures to the attached amendment of the articles of association, executed in duplicate, are the true and correct signatures of said shareholders, or of their lawfully appointed attorneys, and that one of the instruments, in all respects like the other, is on file in the bank.

The foregoing certificate is made under seal of the association in accordance with a resolution of the board of directors adopted at a meeting held on the ——— day of ———, 19—, in which the president, or cashier, was also authorized to make an application for the approval of the amended articles of association, a copy of which resolution has been recorded on the minute book of the bank.

[SEAL OF BANK.]

\_\_\_\_\_,  
President or Cashier.

(The above certificate should not be made prior to date on which the amendment is last signed.)

The Comptroller of the Currency is hereby requested to approve the foregoing amendment of the articles of association of said bank, reextending its corporate existence for twenty years, pursuant to the act of Congress entitled "An act to provide for the extension of the charters of national banks," approved April 12, 1902.

[SEAL OF BANK.]

\_\_\_\_\_,  
President or Cashier.

The other forms are similar to those used in connection with the original or first extension of charter.

#### 70. CHANGE OF NAME OR OF NAME AND LOCATION.

A national banking association may, with the consent of the Comptroller of the Currency and by the vote of shareholders owning at least two-thirds of the stock of the association, change its name or place where its operations are carried on to any other locality in the same State not more than 30 miles distant.

When an association desires to change its title or location, the proposition should be submitted to the Comptroller of the Currency for consideration; and, when approved, a meeting of shareholders called that the required vote may be obtained.

Due notice of the meeting must be given and a certified copy of the resolution, under seal of the bank, sent to the Comptroller of the Currency, accompanied by a copy of the resolution of the board of directors authorizing the Treasurer of the United States to assign to the bank under its new title any bonds held by him as security for circulation, together with the Treasurer's duplicate receipts for the securities. An order for plate or plates and circulation to conform to change of title, etc., should also be submitted.

No change of name or location is valid until the Comptroller's certificate of approval is issued. (Act May 1, 1886.)

The removal of a bank to a different street location but within the limits of the place where it was organized does not require any action

by the shareholders or the approval of the Comptroller, it being entirely within the control of the board of directors unless the specific location is fixed by the articles of association, in which event action by the shareholders is necessary. When the "place" in which a bank was organized has been annexed to another municipality the removal of the bank beyond the limits of the place in which it was organized into the municipality to which the former place has been annexed requires the vote of shareholders owning not less than two-thirds of the stock of the association and the approval of the Comptroller. This approval will not be given when the capital of a bank is less than that required by law for the organization of an association in the municipality into which it is proposed to move.

The position taken by the Comptroller in these cases is sustained by the decision of the United States Circuit Court of Appeals in the case of *Murray v. First National Bank of Capitol Hill, Okla.* (212 Fed. Rep., 140.)

#### 71. AMENDMENTS TO ARTICLES.

Section 5139 of the Revised Statutes provides that no change shall be made in the articles of association of a national bank by which the rights, remedies, or security of the existing creditors of the association shall be impaired; which, by implication, authorizes amendments not contravening the rights of creditors. The national banking law specifically provides for amendments of the articles of association changing corporate title, location of bank, increasing and reducing capital stock, consolidation, and extension of corporate existence. Amendment of the last-named character requires the written consent of shareholders owning two-thirds of the stock of an association, but the other changes require authorization by a vote of not less than two-thirds of the stock of the bank at a meeting of shareholders called for the purpose.

Ordinarily a provision is written into the articles of association of national banks authorizing amendment, in any respect not conflicting with law, by a majority stock vote. Where this provision exists the right is recognized to amend the articles by such a vote, relating to the number of directors, the time of holding annual elections (in the month of January), but under the ruling of the Solicitor of the Treasury the shareholders have no authority to amend the articles of association to provide that less than a majority of the directors shall constitute a quorum.

In the interest of banks concerned, and in accordance with the rulings of the office, a proposition to amend the articles of association of a bank in any particular should be submitted to the Comptroller of the Currency, for approval and specific instructions, in advance of action by stockholders.

## 72. MEETINGS OF SHAREHOLDERS.

There is nothing in the national bank act regarding notice of the annual meeting of the shareholders of national banking associations when held at the time specified in the articles of association. If the articles of association and by-laws are silent the usual notice of the meeting should be given, shareholders being entitled, no doubt, to advice of the meeting notwithstanding the fact that the time is fixed by the articles.

For an annual meeting, at which business of an unusual or extraordinary character, such as the amendment of articles of association, is to be considered, and for all special meetings of shareholders, notice should be given as required by the articles of association of the bank. Unless provision is made therein, 30 days' notice of meeting and business to be transacted should be given. If for any cause the election of directors is not made at the time appointed and the annual meeting is not regularly adjourned, an election must be held on a subsequent day designated by the directors, 30 days' notice of meeting to be given in a newspaper published in the city, town, or county in which the association is located, and if no newspaper is published in such city, town, or county, such notice shall be published in a newspaper published nearest thereto. (Sec. 5149, U. S. R. S.)

In all elections of directors, and in deciding all questions at meetings of shareholders, each shareholder shall be entitled to one vote on each share of stock held by him. Under section 5144, shareholders may vote by proxies duly authorized in writing, but no officer, clerk, teller, or bookkeeper of the association can act as proxy, and no shareholder whose liability is past due and unpaid shall be allowed to vote. The Comptroller, supported by certain decisions of the courts, holds that "a director is an officer within every sense and meaning of the word officer," and, furthermore, that the prohibition with regard to the voting of stock by a shareholder who is liable to the bank merely applies to subscriptions to capital stock.

Cumulative voting at meetings of shareholders is not authorized by the national-bank act. For instance, if a shareholder is the owner of 10 shares of stock and 7 directors are to be elected, he can not cast 70 votes in favor of any one person as a director, but is at liberty only to cast 10 votes for each of the 7 candidates.

## FORM OF PROXY.

Know all men by these presents that I, ———, do hereby constitute and appoint ——— attorney and agent for me, and in my name, place, and stead to vote as my proxy at any and all elections of directors of ——— according to the number of votes I should be entitled to vote if there personally present.



In witness whereof I have hereunto set my hand this ——— day of ———, one thousand nine hundred and ———.

Signed in presence of—  
—————.

A proxy, however, while it must be in writing, need not be in any particular form, nor need it be acknowledged or proved, but it must be in such shape as reasonably to satisfy the inspectors of election as to its genuineness and validity, and to this end the corporate officers may insist upon reasonable evidence of the regularity and the genuineness of the proxy before allowing it to be voted. The proxy should be dated.

When certificates of proxy are destroyed after use parol evidence is admissible to prove their former existence and sufficiency. A stockholder who signs a form of proxy in blank and hands it over to another to be used in the ordinary way impliedly authorizes that other to fill up the blank with his own name. Although a proxy contains blanks as to the hour and day of the meeting, yet this may be filled in by the party using the proxy.

The ordinary proxy being intended for an election merely, does not enable the proxy to vote to increase the capital stock of the bank, to consolidate it with another national bank, or to place it in liquidation, unless the proxy itself in general or special terms gives the proxy the power to vote on such question. The proxy can not vote when the owner of the stock is present and votes. A proxy is always revocable, even when by its terms it is made "irrevocable," and the law allows a stockholder to revoke it. Frequently an attempt is made to permanently unite the voting power of several stockholders and thus control the corporation by giving irrevocable proxies to specified persons, but the common law allows a stockholder to revoke a proxy at any time.

The date of the annual meeting of the shareholders of a national bank is fixed in the articles of association, and those stockholders who attend this meeting may transact the business of that meeting, that is, elect directors, although stockholders representing a majority in interest are not present. Where the articles provide for a scale, the shareholders should first adopt a resolution fixing the number to be elected under the scale, and then proceed with the election. Only stockholders will be elected directors who receive a majority of all the votes cast at the election. Thus, if the articles should provide for a scale of from five to seven, and seven stockholders should receive votes for director, but only five receive a vote of the majority of the stock represented, these five alone would be elected. If any questions arise as to the validity of proxies, or any other questions relative to the election of directors, the matter would



have to be settled in the courts, as the Comptroller has no power to pass thereon.

At all meetings of shareholders, where the articles are amended, a majority vote of all the stock of the bank must be cast for the amendment, except where a larger proportion of the stock is required by law. A resolution providing for an increase or reduction of capital, consolidation of the bank with another national bank, or liquidation of the association requires the affirmative vote of two-thirds of the stock of the bank.

#### REPORTS TO COMPTROLLER.

##### 73. LISTS OF SHAREHOLDERS.

(SEC. 5210, U. S. R. S.) The president and cashier of every national banking association shall cause to be kept at all times a full and correct list of the names and residences of all the shareholders in the association, and the number of shares held by each, in the office where its business is transacted. Such list shall be subject to the inspection of all the shareholders and creditors of the association, and the officers authorized to assess taxes under State authority, during business hours of each day in which business may be legally transacted. A copy of such list, on the first Monday of July of each year, verified by the oath of such president or cashier, shall be transmitted to the Comptroller of the Currency.

##### 74. REPORT OF CONDITION.

SEC. 5211, U. S. R. S. [as amended 1877]. Every association shall make to the Comptroller of the Currency not less than five reports, during each year, according to the form which may be prescribed by him, verified by the oath or affirmation of the president or cashier of such association, and attested by the signature of at least three of the directors. Each such report shall exhibit, in detail and under appropriate heads, the resources and liabilities of the association at the close of business on any past day by him specified; and shall be transmitted to the comptroller within five days after the receipt of a request or requisition therefor from him, and in the same form in which it is made to the comptroller shall be published in a newspaper published in the place where such association is established, or if there is no newspaper in the place, then in the one published nearest thereto in the same county, at the expense of the association; and such proof of publication shall be furnished as may be required by the comptroller. The comptroller shall also have power to call for special reports from any particular association whenever in his judgment the same are necessary in order to a full and complete knowledge of its condition.

## 75. REPORT OF DIVIDENDS.

(SEC. 5212, U. S. R. S.) In addition to the reports required by the preceding section, each association shall report to the Comptroller of the Currency, within ten days after declaring any dividend, the amount of such dividend, and the amount of net earnings in excess of such dividend. Such reports shall be attested by the oath of the president or cashier of the association.

## 76. VERIFICATION OF REPORTS (ACT FEBRUARY 26, 1881).

That the oath or affirmation required by section fifty-two hundred and eleven of the Revised Statutes, verifying the returns made by national banks to the Comptroller of the Currency, when taken before a notary public properly authorized and commissioned by the State in which such notary resides and the bank is located, or any other officer having an official seal, authorized in such State to administer oaths, shall be a sufficient verification as contemplated by said section fifty-two hundred and eleven: *Provided*, That the officer administering the oath is not an officer of the bank.

## 77. PENALTY FOR FAILURE TO MAKE REPORTS.

(SEC. 5213, U. S. R. S.) Every association which fails to make and transmit any report required under either of the two preceding sections shall be subject to a penalty of one hundred dollars for each day after the periods, respectively, therein mentioned, that it delays to make and transmit its report. Whenever any association delays or refuses to pay the penalty herein imposed, after it has been assessed by the Comptroller of the Currency, the amount thereof may be retained by the Treasurer of the United States, upon the order of the Comptroller of the Currency, out of the interest, as it may become due to the association, on the bonds deposited with him to secure circulation. All sums of money collected for penalties under this section shall be paid into the Treasury of the United States.

## CHAPTER 6.

### POWERS AND LIMITATIONS—GENERAL STATUTORY POWERS AND LIMITATIONS.

NOTE.—See also chapter 3, Bonds and circulation; chapter 8, Branch banks; chapter 9, Trust and savings departments; chapter 10, Authority for banks to act as insurance agent or as broker and agent in making and procuring loans on real estate; and chapter 12, deposits and rediscounts with Federal Reserve Banks.

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| 78. Corporate powers of associations.   | 87. Liabilities to an association which may be incurred by any one person, company, etc.                    |
| 79. Loans on improved real estate.  | 88. Loans on or purchase of their own stock forbidden.  |
| 80. Acceptance of drafts or bills of exchange.  | 89. Purchase of stock in other corporations.  |
| 80a. Acceptance of drafts or bills of exchange upon national banks by banks or bankers in foreign countries or dependencies of the United States. | 90. Banks indebtedness.   |
| 81. Power to hold real property.  | 91. Use of circulating notes.   |
| 82. National banking associations to be depositaries of public moneys.  | 92. Withdrawal of capital—Unearned dividends prohibited.  |
| 83. Reserve requirements under section 19 of Federal Reserve act as amended—Section 20 of Federal Reserve act and act April 24, 1917.             | 93. Issue of uncurrent notes.   |
| 84. Rate of interest which may be charged.  | 94. United States notes not to be held as collateral.   |
| 85. Penalty for usury—Jurisdiction of suits by or against national banks.   | 95. Falsely certifying checks.  |
| 86. Declaration of dividends.   | 96. Penalty for embezzlement, abstraction, willful misapplication, false entries, etc.                      |
|   | 97. Political contributions.  |
|   | 98. Penalty for violation of the national-bank act—Forfeiture of charter—Individual liability of directors. |

#### 78. CORPORATE POWERS OF ASSOCIATION.

(Sec. 5136, U. S. R. S.) Upon duly making and filing articles of association and an organization certificate, the association shall become, as from the date of the execution of its organization certificate, a body corporate, and as such, and in the name designated in the organization certificate, it shall have power—

First. To adopt and use a corporate seal.

Second. To have succession for the period of twenty years from its organization, unless it is sooner dissolved according to the provisions of its articles of association, or by the act of its shareholders owning two-thirds of its stock, or unless its franchise becomes forfeited by some violation of law.

Third. To make contracts.

Fourth. To sue and be sued, complain and defend, in any court of law and equity, as fully as natural persons.

Fifth. To elect or appoint directors, and by its board of directors to appoint a president, vice president, cashier, and other officers, define their duties, require bonds of them and fix the penalty thereof, dismiss such officers or any of them at pleasure, and appoint others to fill their places.

Sixth. To prescribe, by its board of directors, by-laws not inconsistent with law, regulating the manner in which its stock shall be transferred, its directors elected or appointed, its officers appointed, its property transferred, its general business conducted, and the privileges granted to it by law exercised and enjoyed.

Seventh. To exercise by its board of directors, or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; by receiving deposits; by buying and selling exchange, coin, and bullion; by loaning money on personal security; and by obtaining, issuing, and circulating notes according to the provisions of this Title.

But no association shall transact any business except such as is incidental and necessarily preliminary to its organization, until it has been authorized by the Comptroller of the Currency to commence the business of banking.

#### 79. LOANS ON IMPROVED REAL ESTATE.

Sec. 24, Federal Reserve Act.—Any national banking association not situated in a central reserve city may make loans secured by improved and unencumbered farm land situated within its Federal reserve district or within a radius of one hundred miles of the place in which such bank is located, irrespective of district lines, and may also make loans secured by improved and unencumbered real estate located within one hundred miles of the place in which such bank is located, irrespective of district lines; but no loan made upon the security of such farm land shall be made for a longer time than five years, and no loan made upon the security of such real estate as distinguished from farm land shall be made for a longer time than one year, nor shall the amount of any such loan, whether upon such farm land or upon such real estate, exceed fifty per centum of the actual value of the property offered as security. Any such bank may make such loans, whether secured by such farm land or such real estate, in an aggregate sum equal to twenty-five per centum of its capital and surplus or to one-third of its time deposits and such banks may continue hereafter as heretofore to receive time deposits and to pay interest on the same.



The Federal Reserve Board shall have power from time to time to add to the list of cities in which national banks shall not be permitted to make loans secured upon real estate in the manner described in this section.

#### 80. ACCEPTANCE OF DRAFTS OR BILLS OF EXCHANGE.

Sec. 13 of Federal Reserve Act as amended 1915, 1916, and 1917.—Any member bank may accept drafts or bills of exchange drawn upon it having not more than six months' sight to run, exclusive of days of grace, which grow out of transactions involving the importation or exportation of goods; or which grow out of transactions involving the domestic shipment of goods provided shipping documents conveying or securing title are attached at the time of acceptance; or which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples. No member bank shall accept, whether in a foreign or domestic transaction, for any one person, company, firm, or corporation to an amount equal at any time in the aggregate to more than ten per centum of its paid-up and unimpaired capital stock and surplus, unless the bank is secured either by attached documents or by some other actual security growing out of the same transaction as the acceptance; and no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half of its paid-up and unimpaired capital stock and surplus: *Provided, however,* That the Federal Reserve Board, under such general regulations as it may prescribe, which shall apply to all banks alike regardless of the amount of capital stock and surplus, may authorize any member bank to accept such bills to an amount not exceeding at any time in the aggregate one hundred per centum of its paid-up and unimpaired capital stock and surplus: *Provided, further,* That the aggregate of acceptances growing out of domestic transactions shall in no event exceed fifty per centum of such capital stock and surplus.

#### 80a. ACCEPTANCE OF DRAFTS OR BILLS OF EXCHANGE DRAWN UPON NATIONAL BANKS BY BANKS OR BANKERS IN FOREIGN COUNTRIES OR DEPENDENCIES OF THE UNITED STATES—ACT SEPTEMBER 7, 1916.

Any member bank may accept drafts or bills of exchange drawn upon it having not more than three months' sight to run, exclusive of days of grace, drawn under regulations to be prescribed by the Federal Reserve Board by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange as required by the usages of trade in the respective countries, dependencies, or insular possessions.

Such drafts or bills may be acquired by Federal reserve banks in such amounts and subject to such regulations, restrictions, and limitations as may be prescribed by the Federal Reserve Board: *Provided, however*, That no member bank shall accept such drafts or bills of exchange referred to this paragraph for any one bank to an amount exceeding in the aggregate ten per centum of the paid-up and unimpaired capital and surplus of the accepting bank unless the draft or bill of exchange is accompanied by documents conveying or securing title or by some other adequate security: *Provided further*, That no member bank shall accept such drafts or bills in an amount exceeding at any time the aggregate of one-half of its paid-up and unimpaired capital and surplus.

#### 81. POWER TO HOLD REAL PROPERTY.

Sec. 5137, U. S. R. S.—A national banking association may purchase, hold, and convey real estate for the following purposes, and for no others:

First. Such as shall be necessary for its immediate accommodation in the transaction of its business.

Second. Such as shall be mortgaged to it in good faith by way of security for debts previously contracted.

Third. Such as shall be conveyed to it in satisfaction of debts previously contracted in the course of its dealings.

Fourth. Such as it shall purchase at sales under judgments, decrees, or mortgages held by the association, or shall purchase to secure debts due to it.

But no such association shall hold the possession of any real estate under mortgage, or the title and possession of any real estate purchased to secure any debts due to it, for a longer period than five years.

#### 82. NATIONAL BANKING ASSOCIATIONS TO BE DEPOSITARIES OF PUBLIC MONEYS.

(Sec. 5153, U. S. R. S., as amended 1907.)—All national banking associations, designated for that purpose by the Secretary of the Treasury, shall be depositaries of public money, under such regulations as may be prescribed by the Secretary; and they may also be employed as financial agents of the Government; and they shall perform all such reasonable duties, as depositaries of public money and financial agents of the Government, as may be required of them. The Secretary of the Treasury shall require the associations thus designated to give satisfactory security, by the deposit of United States bonds and otherwise, for the safe-keeping and prompt payment of the public money deposited with them, and for the

faithful performance of their duties as financial agents of the Government: *Provided*, That the Secretary shall, on or before the first of January of each year, make a public statement of the securities required during that year for such deposits. And every association so designated as receiver or depositary of the public money shall take and receive at par all of the national currency bills, by whatever association issued, which have been paid into the Government for internal revenue, or for loans or stocks: *Provided*, That the Secretary of the Treasury shall distribute the deposits herein provided for, as far as practicable, equitably between the different States and sections.

83. RESERVE REQUIREMENTS UNDER SECTION 19 OF FEDERAL RESERVE ACT AS AMENDED—SECTION 20 OF FEDERAL RESERVE ACT AND ACT APRIL 24, 1917.

DEMAND AND TIME DEPOSITS DEFINED. RESERVE REQUIREMENTS.

Demand deposits within the meaning of this act shall comprise all deposits payable within thirty days, and time deposits shall comprise all deposits payable after thirty days, all savings accounts and certificates of deposit which are subject to not less than thirty days' notice before payment, and all postal savings deposits.

Every bank, banking association, or trust company which is or which becomes a member of any Federal reserve bank shall establish and maintain reserve balances with its Federal reserve bank as follows:

83A. RESERVE REQUIREMENTS FOR BANKS NOT IN RESERVE CITIES.

(a) If not in a reserve or central reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than seven per centum of the aggregate amount of its demand deposits and three per centum of its time deposits.

83B. RESERVE REQUIREMENTS FOR BANKS IN RESERVE CITIES.

(b) If in a reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than ten per centum of the aggregate amount of its demand deposits and three per centum of its time deposits: *Provided, however*, That if located in the outlying districts of a reserve city or in territory added to such a city by the extension of its corporate charter, it may, upon the affirmative vote of five members, of the Federal Reserve Board, hold, and maintain the reserve balances specified in paragraph (a) hereof.



## 83C. RESERVE REQUIREMENTS FOR BANKS IN CENTRAL RESERVE CITIES.

(c) If in a central reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than thirteen per centum of the aggregate amount of its demand deposits and three per centum of its time deposits: *Provided, however,* That if located in the outlying districts of a central reserve city or in territory added to such city by the extension of its corporate charter, it may, upon the affirmative vote of five members of the Federal Reserve Board, hold and maintain the reserve balances specified in paragraphs (a) or (b) thereof.

## 83D. MEMBER BANK FORBIDDEN TO KEEP ON DEPOSIT WITH NONMEMBER BANK A SUM IN EXCESS OF TEN PER CENTUM OF ITS OWN CAPITAL AND SURPLUS OR TO SECURE DISCOUNTS FOR NONMEMBER BANK.

No member bank shall keep on deposit with any State bank or trust company which is not a member bank a sum in excess of ten per centum of its own paid-up capital and surplus. No member bank shall act as the medium or agent of a nonmember bank in applying for or receiving discounts from a Federal reserve bank under the provisions of this act, except by permission of the Federal Reserve Board.

## 83E. WITHDRAWAL OF RESERVE BY MEMBER BANK.

The required balance carried by a member bank with a Federal reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities: *Provided, however,* That no bank shall at any time make new loans or shall pay any dividends unless and until the total balance required by law is fully restored.

## 83F. RESERVE REQUIREMENTS—HOW ESTIMATED.

In estimating the balances required by this act the net difference of amounts due to and from other banks shall be taken as the basis for ascertaining the deposits against which required balances with Federal reserve banks shall be determined.

## 83G. RESERVE REQUIREMENTS FOR NATIONAL BANKS LOCATED IN ALASKA OR OUTSIDE THE CONTINENTAL UNITED STATES.

National banks, or banks organized under local laws, located in Alaska or in a dependency or insular possession or any part of the United States outside the continental United States may remain nonmember banks, and shall in that event maintain reserves and comply with all the conditions now provided by law regulating them;



or said banks may, with the consent of the Reserve Board, become member banks of any one of the reserve districts, and shall in that event take stock, maintain reserves, and be subject to all the other provisions of this act.

#### 83H. REDEMPTION FUND NOT COUNTED AS RESERVE.

(Sec. 20, Federal Reserve Act.) So much of sections two and three of the act of June twentieth, eighteen hundred and seventy-four, entitled "An act fixing the amount of United States notes, providing for a redistribution of the national-bank currency, and for other purposes," as provides that the fund deposited by any national banking association with the Treasurer of the United States for the redemption of its notes shall be counted as a part of its lawful reserve as provided in the act aforesaid, is hereby repealed. And from and after the passage of this act such fund of five per centum shall in no case be counted by any national banking association as a part of its lawful reserve.

#### 83I. NO RESERVE REQUIRED TO BE HELD AGAINST UNITED STATES DEPOSITS.

(Section 7, act April 24, 1917.) That the provisions of section fifty-one hundred and ninety-one of the Revised Statutes, as amended by the Federal reserve act and the amendments thereof, with reference to the reserves required to be kept by national banking associations and other member banks of the Federal Reserve System, shall not apply to deposits of public moneys by the United States in designated depositories.

#### 84. RATE OF INTEREST WHICH MAY BE CHARGED.

(Sec. 5197, U. S. R. S.) Any association may take, receive, reserve, and charge on any loan or discount made, or upon any note, bill of exchange, or other evidences of debt, interest at the rate allowed by the laws of the State, Territory, or District where the bank is located, and no more, except that where by the laws of any State a different rate is limited for banks of issue organized under State laws, the rate so limited shall be allowed for associations organized or existing in any such State under this Title. When no rate is fixed by the laws of the State, or Territory, or District, the bank may take, receive, reserve, or charge a rate not exceeding seven per centum, and such interest may be taken in advance, reckoning the days for which the note, bill, or other evidence of debt has to run. And the purchase, discount, or sale of a bona fide bill of exchange, payable at another place than the place of such purchase, discount, or sale, at not more than the current rate of exchange for sight drafts in addition to the interest, shall not be considered as taking or receiving a greater rate of interest.

### 85. PENALTY FOR USURY—JURISDICTION OF SUITS BY OR AGAINST NATIONAL BANKS.

(Sec. 5198 U. S. R. S., as amended 1875.) The taking, receiving, reserving, or charging a rate of interest greater than is allowed by the preceding section, when knowingly done, shall be deemed a forfeiture of the entire interest which the note, bill, or other evidence of debt carries with it, or which has been agreed to be paid thereon. In case the greater rate of interest has been paid, the person by whom it has been paid, or his legal representative, may recover back, in an action in the nature of an action of debt, twice the amount of the interest thus paid from the association taking or receiving the same; provided such action is commenced within two years from the time the usurious transaction occurred. That suits, actions, and proceedings against any association under this Title may be had in any circuit, district, or territorial court of the United States held within the district in which such association may be established, or in any State, county, or municipal court in the county or city in which said association is located having jurisdiction in similar cases.

### 86. DECLARATION OF DIVIDENDS.

(Sec. 5199, U. S. R. S.) The directors of any association may, semiannually, declare a dividend of so much of the net profits of the association as they shall judge expedient; but each association shall, before the declaration of a dividend, carry one-tenth part of its net profits of the preceding half year to its surplus fund until the same shall amount to twenty per centum of its capital stock.

### 87. LIABILITIES TO AN ASSOCIATION WHICH MAY BE INCURRED BY ANY ONE PERSON, COMPANY, ETC.

(Sec. 5200, U. S. R. S., as amended 1918.) The total liabilities to any association, of any person, or of any company, corporation, or firm for money borrowed, including in the liabilities of a company or firm the liabilities of the several members thereof, shall at no time exceed ten per centum of the amount of the capital stock of such association, actually paid in and unimpaired, and ten per centum of its unimpaired surplus fund: *Provided, however,* That (1) the discount of bills of exchange drawn in good faith against actually existing values, (2) the discount of commercial or business paper actually owned by the person, company, corporation, or firm negotiating the same, and (3) the purchase or discount of any note or notes secured by not less than a like face amount of bonds of the United States issued since April 24, 1917, or certificates of indebtedness of the United States, shall not be considered as money borrowed within the

meaning of this section; but the total liabilities to any association, of any person or of any company, corporation, or firm, upon any note or notes purchased or discounted by such association and secured by such bonds or certificates of indebtedness, shall not exceed (except to the extent permitted by rules and regulations prescribed by the Comptroller of the Currency, with the approval of the Secretary of the Treasury) ten per centum of such capital stock and surplus fund of such association.

NOTE.—See act March 3, 1919, "Victory Liberty loan Act," which provides that the word "bonds" where it appears in section 5200 of the Revised Statutes as amended shall be deemed to include notes issued under the "Victory Liberty loan act."

#### 88. LOANS ON OR PURCHASE OF THEIR OWN STOCK FORBIDDEN.

(Sec. 5201, U. S. R. S.) No association shall make any loan or discount on the security of the shares of its own capital stock, nor be the purchaser or holder of any such shares, unless such security or purchase shall be necessary to prevent loss upon a debt previously contracted in good faith; and stock so purchased or acquired shall, within six months from the time of its purchase, be sold or disposed of at public or private sale; or, in default thereof, a receiver may be appointed to close up the business of the association, according to section fifty-two hundred and thirty-four.

#### 89. PURCHASE OF STOCK IN OTHER CORPORATIONS.

The Supreme Court of the United States held in the case of the California National Bank *v.* Kennedy (167 U. S., 362) that the power to purchase or deal in stock of another corporation is not expressly conferred upon national banks, nor is it an act which may be exercised as incidental to the powers expressly conferred. A dealing in stocks is consequently an ultra vires act, and being such it is without efficacy.

#### 90. BANKS INDEBTEDNESS.

(Sec. 5202, U. S. R. S.) No national banking association shall at any time be indebted, or in any way liable, to an amount exceeding the amount of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account of demands of the nature following:

First. Notes of circulation.

Second. Moneys deposited with or collected by the association.

Third. Bills of exchange or drafts drawn against money actually on deposit to the credit of the association, or due thereto.

Fourth. Liabilities to the stockholders of the association for dividends and reserve profits.



Fifth. Liabilities incurred under the provisions of the Federal reserve act.

Sixth. Liabilities incurred under the provisions of the War Finance Corporation act.

#### 91. USE OF CIRCULATING NOTES.

(Sec. 5203, U. S. R. S.) No association shall, either directly or indirectly, pledge or hypothecate any of its notes or circulation, for the purpose of procuring money to be paid in on its capital stock, or to be used in its banking operations, or otherwise; nor shall any association use its circulating notes, or any part thereof, in any manner or form, to create or increase its capital stock.

#### 92. WITHDRAWAL OF CAPITAL—UNEARNED DIVIDENDS PROHIBITED.

(Sec. 5204, U. S. R. S.) No association, or any member thereof, shall, during the time it shall continue its banking operations, withdraw, or permit to be withdrawn, either in the form of dividends or otherwise, any portion of its capital. If losses have at any time been sustained by any such association, equal to or exceeding its undivided profits then on hand, no dividend shall be made; and no dividend shall ever be made by any association, while it continues its banking operations, to an amount greater than its net profits then on hand, deducting therefrom its losses and bad debts. All debts due to any association, on which interest is past due and unpaid for a period of six months, unless the same are well secured, and in process of collection, shall be considered bad debts within the meaning of this section. But nothing in this section shall prevent the reduction of the capital stock of the association under section fifty-one hundred and forty-three.

#### 93. ISSUE OF UNCURRENT NOTES.

(Sec. 5206, U. S. R. S.) No association shall at any time pay out on loans or discounts, or in purchasing drafts or bills of exchange, or in payment of deposits, or in any other mode pay or put in circulation, the notes of any bank or banking association which are not, at any such time, receivable, at par, on deposit, and in payment of debts by the association so paying out or circulating such notes; nor shall any association knowingly pay out or put in circulation any notes issued by any bank or banking association which at the time of such paying out or putting in circulation is not redeeming its circulating notes in lawful money of the United States.

#### 94. UNITED STATES NOTES NOT TO BE HELD AS COLLATERAL.

(Sec. 5207, U. S. R. S.) No association shall hereafter offer or receive United States notes or national-bank notes as security or as collateral



security for any loan of money, or for a consideration agree to withhold the same from use, or offer or receive the custody or promise of custody of such notes as security, or as collateral security, or consideration for any loan of money. Any association offending against the provisions of this section shall be deemed guilty of a misdemeanor, and shall be fined not more than one thousand dollars and a further sum equal to one-third of the money so loaned. The officer or officers of any association who shall make any such loan shall be liable for a further sum equal to one-quarter of the money loaned; and any fine or penalty incurred by a violation of this section shall be recoverable for the benefit of the party bringing such suit.

#### 95. FALSELY CERTIFYING CHECKS.

(Sec. 5208, U. S. R. S.) It shall be unlawful for any officer, director, agent, or employee of any Federal reserve bank, or of any member bank as defined in the act of December twenty-third, nineteen hundred and thirteen, known as the Federal reserve act, to certify any check drawn upon such Federal reserve bank or member bank unless the person, firm, or corporation drawing the check has on deposit with such Federal reserve bank or member bank, at the times such check is certified, an amount of money not less than the amount specified in such check. Any check so certified by a duly authorized officer, director, agent, or employee shall be a good and valid obligation against such Federal reserve bank or member bank; but the act of any officer, director, agent, or employee of any such Federal reserve bank or member bank in violation of this section shall, in the discretion of the Federal Reserve Board, subject such Federal reserve bank to the penalties imposed by section eleven, subsection (h), of the Federal reserve act, and shall subject such member bank if a national bank to the liabilities and proceedings on the part of the Comptroller of the Currency provided for in section fifty-two hundred and thirty-four, Revised Statutes, and shall, in the discretion of the Federal Reserve Board, subject any other member bank to the penalties imposed by section nine of said Federal reserve act for the violation of any of the provisions of said act. Any officer, director, agent, or employee of any Federal reserve bank or member bank who shall willfully violate the provisions of this section, or who shall resort to any device, or receive any fictitious obligation, directly or collaterally, in order to evade the provisions thereof, or who shall certify a check before the amount thereof shall have been regularly entered to the credit of the drawer upon the books of the bank, shall be deemed guilty of a misdemeanor and shall, on conviction thereof in any district court of the United States, be fined not more than \$5,000, or shall be imprisoned for not more than five years, or both, in the discretion of the court.

96. PENALTY FOR EMBEZZLEMENT, ABSTRACTION, WILLFUL MISAPPLICATION, FALSE ENTRIES, ETC.

(Sec. 5209, U. S. R. S.) Any officer, director, agent, or employee of any Federal reserve bank, or of any member bank as defined in the act of December twenty-third, nineteen hundred and thirteen, known as the Federal reserve act, who embezzles, abstracts, or willfully misapplies any of the moneys, funds, or credits of such Federal reserve bank or member bank, or who, without authority from the directors of such Federal reserve bank or member bank, issues or puts in circulation any of the notes of such Federal reserve bank or member bank, or who, without such authority, issues or puts forth any certificate of deposit, draws any order or bill of exchange, makes any acceptance, assigns any note, bond, draft, bill of exchange, mortgage, judgment, or decree, or who makes any false entry in any book, report, or statement of such Federal reserve bank or member bank, with intent in any case to injure or defraud such Federal reserve bank or member bank, or any other company, body politic or corporate, or any individual person, or to deceive any officer of such Federal reserve bank or member bank, or the Comptroller of the Currency, or any agent or examiner appointed to examine the affairs of such Federal reserve bank or member bank, or the Federal Reserve Board; and every receiver of a national banking association who, with like intent to defraud or injure, embezzles, abstracts, purloins, or willfully misapplies any of the moneys, funds, or assets of his trust, and every person who, with like intent, aids or abets any officer, director, agent, employee, or receiver in any violation of this section shall be deemed guilty of a misdemeanor, and upon conviction thereof in any district court of the United States shall be fined not more than \$5,000 or shall be imprisoned for not more than five years, or both, in the discretion of the court.

Any Federal reserve agent, or any agent or employee of such Federal reserve agent, or of the Federal Reserve Board, who embezzles, abstracts, or willfully misapplies any moneys, funds, or securities intrusted to his care, or without complying with or in violation of the provisions of the Federal reserve act, issues or put in circulation any Federal reserve notes shall be guilty of a misdemeanor and upon conviction in any district court of the United States shall be fined not more than \$5,000 or imprisoned for not more than five years, or both, in the discretion of the court.

97. POLITICAL CONTRIBUTIONS.

(Act Jan. 26, 1907.) That it shall be unlawful for any national bank, or any corporation organized by authority of any laws of

Congress, to make a money contribution in connection with any election to any political office. It shall also be unlawful for any corporation whatever to make a money contribution in connection with any election at which Presidential and Vice Presidential electors or a Representative in Congress is to be voted for or any election by any State legislature of a United States Senator. Every corporation which shall make any contribution in violation of the foregoing provisions shall be subject to a fine not exceeding five thousand dollars, and every officer or director of any corporation who shall consent to any contribution by the corporation in violation of the foregoing provisions shall upon conviction be punished by a fine of not exceeding one thousand and not less than two hundred and fifty dollars, or by imprisonment for a term of not more than one year, or both such fine and imprisonment in the discretion of the court.

98. PENALTY FOR VIOLATION OF THE NATIONAL BANK ACT—FORFEITURE OF CHARTER—INDIVIDUAL LIABILITY OF DIRECTORS.

(Sec. 5239, U. S. R. S.) If the directors of any national banking association shall knowingly violate, or knowingly permit any of the officers, agents, or servants of the association to violate any of the provisions of this title, all the rights, privileges, and franchises of the association shall be thereby forfeited. Such violation shall, however, be determined and adjudged by a proper circuit, district, or Territorial court of the United States, in a suit brought for that purpose by the Comptroller of the Currency, in his own name, before the association shall be declared dissolved. And in cases of such violation, every director who participated in or assented to the same shall be held liable in his personal and individual capacity for all damages which the association, its shareholders, or any other person, shall have sustained in consequence of such violation.

## CHAPTER 7.

### CONSOLIDATION OF NATIONAL BANKS.

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|---|---|--|
| 99. Instructions and form of agreement under act of November 7, 1918. | } | 101. Transfer of bonds under act of November 7, 1918.      |
| 100. Resolution of shareholders under act of November 7, 1918.        |   | 102. Consolidation when one bank is placed in liquidation. |
|   |   | 103. Assumption of liability for circulation.              |

#### 99. CONSOLIDATION OF NATIONAL BANKS UNDER THE ACT OF NOVEMBER 7, 1918—INSTRUCTIONS AND FORM OF AGREEMENT.

National banks proposing to consolidate under the act of November 7, 1918, should advise the Comptroller of the plan of consolidation under consideration and apply for his approval. If the condition of the banks is such as to warrant approval of the consolidation and the terms of consolidation are unobjectionable, instructions relative to the course of procedure, together with forms to be executed in connection therewith, will be furnished. The initial proceeding under the act, after the plan adopted has received the approval of the Comptroller, is to have the directors of the two associations enter into an agreement covering the terms of the consolidation. The following is a form of agreement for adoption by the directors of the associations. If the form of agreement submitted does not include all that may be desired to be included in the proposed consolidation, the Comptroller should be advised of desired changes or additions, and if they meet with approval an amended form, providing for such changes or additions, will be furnished.

AGREEMENT OF CONSOLIDATION BETWEEN THE \_\_\_\_\_ AND THE \_\_\_\_\_  
\_\_\_\_\_ UNDER THE TITLE OF THE \_\_\_\_\_.

This agreement made between the \_\_\_\_\_ and the \_\_\_\_\_, each located in \_\_\_\_\_, and each acting pursuant to a resolution of its board of directors and by a majority of said boards, pursuant to the authority given by, and in accordance with the provisions of an act of the Congress of the United States entitled, "An act to provide for the consolidation of national banking associations," approved on the 7th day of November, 1918, witnesseth as follows:

1. The \_\_\_\_\_ (hereafter referred to as the \_\_\_\_\_) and the \_\_\_\_\_ (hereafter referred to as the \_\_\_\_\_) are hereby consolidated under the charter of the said first-named association as hereby modified.
2. The name of the consolidated association shall be "\_\_\_\_\_."
3. The amount of capital stock of the consolidated association shall be \_\_\_\_\_ dollars (\$\_\_\_\_\_), divided into \_\_\_\_\_ shares (\_\_\_\_\_) of one hundred dollars (\$100.00) each, subject to the right to change the amount of said capital hereafter as is now or shall hereafter be authorized by law. On the date of con-



solidation its surplus shall be ——— dollars (\$——). Said capital, surplus, and undivided profits at the date of consolidation shall then aggregate ——— dollars (\$——). Of this capital ——— (——) shares shall be allotted to the present shareholders of the ———, being ——— shares for each share now held by them, and ——— (——) shall be allotted to the present shareholders of the ———, being ——— for each share now held by them. The assets contributed by each of said associations shall, upon the effective date of the consolidation, be passed upon and be acceptable to a committee of six, three to be appointed by the board of directors of each association, and the shareholders of the present ——— shall furnish net assets above all liabilities of that association equal to ——— of the capital and surplus of the consolidated bank, and the present shareholders of the ——— shall furnish net assets equal to ———. Such assets of either association as it shall not consider desirable to carry into the consolidation, or as shall not be necessary to make up its contribution to the capital, surplus, and undivided profits, as aforesaid, shall be transferred by it, before the effective date of the consolidation, to a trustee or trustees for the ultimate benefit of its shareholders, upon whatever terms and under whatever conditions shall be deemed proper. In the event that there is not sufficient net assets in either association to make good its proportion of capital and surplus of ——— (\$——) herein provided for, the shareholders of the association not having sufficient assets to make good its proportion shall pay the difference in cash.

4. The directors of the consolidating associations shall constitute the board of directors of the consolidated bank for the remainder of the current year.

5. This consolidation shall become effective when it shall have been ratified and confirmed by the affirmative vote of the shareholders of each of said associations owning at least two-thirds of its capital stock outstanding, at a meeting to be held pursuant to a call by the directors heretofore made, and shall have been approved by the Comptroller of the Currency of the United States.

Witness the signatures and seals of said associations, this — day of ———, 1919, each hereunto set by the president and attested by its cashier, pursuant to a resolution of its board of directors, acting by a majority thereof, and witness the signatures hereto of a majority of each of said boards of directors.

THE ———,  
By ———,  
President.

Attest:  
———,  
Cashier.

———,  
———,  
———,  
———,  
Directors of the National Bank of ———.

THE ———,  
By ———,  
President.

Attest:  
———,  
Cashier.

———,  
———,  
———,  
———,  
Directors of the National Bank of ———.

STATE OF \_\_\_\_\_,

County of \_\_\_\_\_, ss:

On this \_\_\_\_\_ day of \_\_\_\_\_, 191-, before me, a notary public for the State and county aforesaid, personally came \_\_\_\_\_, as president, and \_\_\_\_\_, as cashier of the \_\_\_\_\_ National Bank of \_\_\_\_\_, and each in his said capacity acknowledged the foregoing instrument to be the act and deed of said association and the seal affixed thereto to be its seal; and came also \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_, being a majority of the board of directors of said association, and each of them acknowledged said instrument to be the act and deed of said association and of himself as a director thereof.

Witness my official seal and signature this day and year aforesaid.

\_\_\_\_\_  
Notary Public, \_\_\_\_\_ County.

My commission expires \_\_\_\_\_.

STATE OF \_\_\_\_\_,

County of \_\_\_\_\_, ss:

On this \_\_\_\_\_ day of \_\_\_\_\_, 191-, before me, a notary public for the State and county aforesaid, personally came \_\_\_\_\_, as president, and \_\_\_\_\_, as cashier of the \_\_\_\_\_ National Bank of \_\_\_\_\_, and each in his said capacity acknowledged the foregoing instrument to be the act and deed of said association and the seal affixed thereto to be its seal; and came also \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_, being a majority of the board of directors of said association, and each of them acknowledged said instrument to be the act and deed of said association and of himself as a director thereof.

Witness my official seal and signature this day and year aforesaid.

\_\_\_\_\_  
Notary Public, \_\_\_\_\_ County.

My commission expires \_\_\_\_\_.

If an increase in capital is provided for, by the agreement between the directors of the associations, of an amount in excess of the total capital of the existing banks, or if there is a provision in the agreement requiring the paying in of cash in addition to the transfer of assets to equalize the value of capital stock, or for other reason, it will be necessary to furnish a certificate sworn to by the president or cashier of the consolidated associations, showing that such increase has been paid in cash. In the event that the capital of the consolidated association is less than the capital of either one of the existing associations, it will be necessary to secure the consent of the Federal Reserve Board to such reduction, in the same manner as in case of reduction of capital of national banks.

#### 100. RESOLUTION OF SHAREHOLDERS UNDER ACT OF NOVEMBER 7, 1918.

When the approval of the Comptroller has been secured to the provisions of the agreement for consolidation of the associations, and the agreement has been signed by the directors of each association and acknowledged before a notary public, it may be submitted to the shareholders. Notice of the meeting of the shareholders of each asso-

ciation to vote upon this agreement must be published for four consecutive weeks in some newspaper published in the place where the associations are located, and if no newspaper is published in the place, then in a paper published nearest thereto, and this notice must state the time, place, and object of the meeting. In addition to this published notice, the law requires a notice to be sent to each shareholder of record by registered mail at least 10 days prior to said meeting. When the agreement between the directors is ratified and confirmed by the affirmative vote of the shareholders of each such association owning at least two-thirds of its capital stock, a certified copy of the resolution evidencing ratification and confirmation, should be sent to the Comptroller. Upon receipt of the resolution, evidencing compliance with the requirements of law, etc., the Comptroller will issue his certificate approving the consolidation. The agreement between the directors of the associations must be recited in full in the resolution of the shareholders, and the names of all the directors who sign the agreement and the officers before whom they acknowledge it should be typewritten.

The following is a form of resolution for adoption by the shareholders:

RESOLUTION PROVIDING FOR THE CONSOLIDATION OF THE ——— NATIONAL BANK OF ———, NO. ———, AND THE ——— NATIONAL BANK OF ———, NO. ———.

At a meeting of the shareholders of the ——— held on ———, at the hour of ———, at the banking house of the association in the town or city of ———, notice having been given of the time, place and object of the meeting for four consecutive weeks in the ———, a newspaper published in the place where said association is located, and notice having been sent to each shareholder of record by registered mail at least 10 days prior to said meeting, the following resolution was adopted by the vote of shareholders of the ———, owning at least two-thirds of its outstanding capital stock:

"Whereas, the directors of the ———, located in the town or city of ———, county of ———, and State of ———, have entered into an agreement with the board of directors of the ———, located in the town or city of ———, county of ———, and State of ———, providing for the consolidation of the two associations into one national bank under the charter of the ———, and under the title of '———' in accordance with the provisions of the act of Congress approved November 7, 1918, said agreement entered into between the two boards of directors reading as follows: ———: Therefore be it

"*Resolved*, That the agreement entered into between the directors of the ——— National Bank of ——— and the ——— National Bank of ——— be ratified and confirmed, and that these banks be consolidated under the charter of the ———, and under the title of '———,' with capital stock of ——— (\$———), such consolidation to become effective immediately upon its approval by the Comptroller of the Currency."

The foregoing resolution was adopted by the following vote representing two-thirds or more of the capital stock of the association outstanding, no director, other officer, or employee having acted as proxy.

*Stock voted for resolution.*

Name of shareholder.	Residence.	Name of proxy.	Number of shares.

*Stock voted against resolution.*

Name of shareholder.	Residence.	Name of proxy.	Number of shares.

RECAPITULATION.

Total number of shares voted in favor of resolution.....  
 Total number of shares voted against resolution.....  
 Total number of shares represented at meeting.....  
 Total number of shares of capital stock.....

I hereby certify that this is a true and correct report of the vote and of the resolution adopted at a meeting of the shareholders of this bank held on the date mentioned.

[SEAL OF BANK.]

\_\_\_\_\_,  
*President.*

Subscribed and sworn to before me this \_\_\_\_ day of \_\_\_\_\_, A. D. 191-.

[SEAL OF NOTARY.]

\_\_\_\_\_,  
*Notary Public, \_\_\_\_\_ County.*

My commission expires \_\_\_\_\_.

101. TRANSFER OF BONDS UNDER ACT OF NOVEMBER 7, 1918.

Bonds held by either bank contemplating consolidation under this act in excess of the amount of capital of the consolidated bank must be withdrawn prior to the date on which the consolidation is approved by the Comptroller's Office. These bonds will be released upon the deposit of lawful money to retire outstanding circulation, provided the resolution of the directors authorizing the withdrawal and the Treasurer's duplicate receipts for the bonds have been furnished.

If bonds are to be transferred to the consolidated association it will be necessary to furnish the Treasurer's receipts therefor, and the bonds will be transferred to the Treasurer of the United States in trust as security for circulation of the consolidated bank without other authority than that contained in the agreement and resolution for consolidation.



In order that there may be no delay in transferring bonds after certificate approving the consolidation has been issued by this office, the Treasurer's duplicate receipts should be promptly furnished.

#### 102. CONSOLIDATION WHEN ONE BANK IS PLACED IN LIQUIDATION.

Consolidation under this plan can only be effected by pursuing one of the following methods:

First. Without an increase of capital the directors of the absorbing bank may enter into a contract with the directors or agents of the liquidating association to purchase its assets, assume liabilities to depositors and other creditors, and to pay the value of assets purchased in excess of liabilities to depositors and other creditors, less any expenses incident to liquidation.

Second. By increasing the capital stock of the absorbing bank by an amount equal to that of the liquidated bank, the additional shares may be sold to stockholders of the latter, consent thereto having been previously obtained from shareholders of the absorbing association.

The national bank act makes no provision for the allotment of new stock when a bank increases its capital; but under the common law, where it has not been modified by statute, when a corporation has adopted a resolution to increase its capital the shareholders of the corporation have the right to participate in the increase in proportion to the number of shares held by each, and waiver of that right should be obtained before allotting any of the shares to others.

Provision having thus been made for shareholders of the closed bank, the directors of the continuing bank are at liberty to contract for the purchase of assets and the assumption of liabilities to depositors and other creditors of the liquidated bank.

As the law is construed as requiring the payment of capital, original or on account of increase, in money, and not in "notes or like evidences of debt," the right to accept stock or assets representing stock of the closed bank and to issue therefor certificates in the continuing bank is not recognized. In every such case shareholders of the closed association should be paid the value of their stock either in cash or cashier's checks, the proceeds being available in payment of shares to which they may be entitled in the absorbing corporation.

Third. The remaining method is to place the interested banks in voluntary liquidation, under section 5220 of the United States Revised Statutes, organize anew under a different corporate title, and acquire, in the manner hereinbefore outlined, the business of the liquidating associations. This method enables the incorporators to place the stock as they may determine.

In any event, there should be a contract covering the transfer of assets and assumption of liabilities, and an examination of the assets

to be taken over will be made by a national bank examiner at the expense of the bank acquiring the assets.

### 103. ASSUMPTION OF LIABILITY FOR CIRCULATION.

Section 5223, United States Revised Statutes, provides that a national bank which is in good faith winding up its business for the purpose of consolidating with another national bank shall not be required to deposit lawful money for its outstanding circulation.

When it is desired to take advantage of this section, in addition to the adoption of the resolution by the directors of the liquidating bank authorizing the assignment of its bonds to the national bank with which it is to be consolidated, the Comptroller requires the directors of the continuing bank to adopt a formal resolution by which they assume the liability for the outstanding circulation of the liquidating bank.

CHAPTER 8.  
**LIQUIDATION.**

- |  |  |
|--|--|
| 104. Instructions relative to liquidation.     | 108. Forms of reports to be rendered by liquidating agent. |
| 105. Resolution for voluntary liquidation.     | 109. Election of officers during liquidation.              |
| 106. Notice of liquidation.                    | 110. Liquidation at expiration of charter.                 |
| 107. Liquidating agent—appointment and powers. |  |

104. INSTRUCTIONS RELATIVE TO LIQUIDATION.

A national banking association may, under section 5220, be placed in voluntary liquidation by a vote of the owners of two-thirds of the stock. Before calling a meeting of shareholders, however, for the purpose of voting upon the proposition, application should be made to the Comptroller for the necessary blanks and instructions.

Before the meeting is held the shareholders should be given the notice required by the articles of association.

When a meeting has been held and a resolution adopted by the required vote, it is the duty of the board of directors to cause notice of the fact to be certified, under seal of the association, to the Comptroller of the Currency by the president or cashier, and publication thereof to be made for a period of two months in a newspaper published in the city of New York and also in the place in which the association is located, or if no newspaper is published in such place, then in a newspaper published nearest thereto, that the association is closing up its affairs, and notifying note holders and other creditors to present the notes and other claims against the association for payment. Lawful money to provide for the redemption of circulation must be deposited within six months from date of liquidation.

When an association goes into liquidation, its affairs pass into the hands of its shareholders for such legal disposition as may be deemed proper; and, unless a liquidating agent is elected by the shareholders (Solicitor's op., Mar. 7, 1906), the settlement of the affairs of the bank would appear to devolve upon the directors, who will be at liberty to continue one or more of the officers or, in lieu thereof, to appoint an agent, for the purpose of conducting liquidating proceedings.

After a national bank has gone into voluntary liquidation no further supervision of its affairs is conferred upon the Comptroller by law. It is usual, however, for the shareholders to adopt a resolution providing for the appointment of a liquidating agent or

committee and that the liquidating agent or committee shall render quarterly reports to the Comptroller showing the progress of the liquidation until it is completed. The filing of these reports is of advantage to all interested, as it makes a permanent record of the liquidation.

A creditor of a national bank in liquidation has the right to enforce the individual liability of shareholders provided for by section 2, act June 30, 1876, by filing a bill in equity in the nature of a creditor's bill against the shareholders of the bank in any court of the United States having original jurisdiction for the district in which the bank may have been located or established.

Any shareholder of a national bank in liquidation, who is dissatisfied with the manner in which liquidation is conducted, has the right to go into court and ask for the appointment of a receiver in the same manner as a shareholder of any State corporation would be so authorized.

#### 105. RESOLUTION FOR VOLUNTARY LIQUIDATION.

The following is a form of resolution for adoption by the shareholders of a national bank in the event it is decided to place the association in voluntary liquidation:

##### RESOLUTION FOR VOLUNTARY LIQUIDATION.

At a meeting of the shareholders of the ——— National Bank ———, located at ———, held on ———, 30 days' notice of the proposed business having been given, it was

*Resolved*, That the ——— ——— be placed in voluntary liquidation under the provisions of sections 5220 and 5221 of the United States Revised Statutes, to take effect ———, and that ——— ——— be appointed liquidating agent or liquidating committee of said bank; that liquidation shall be conducted in accordance with law and under the supervision of the board of directors, who shall require a suitable bond to be given by the said agent or committee in an amount to be fixed by the board of directors; that the said liquidating agent or committee shall render quarterly reports to the Comptroller of the Currency on the 1st of January, April, July, and October of each year showing the progress of said liquidation until said liquidation is completed; that said liquidating agent or committee shall render an annual report to the shareholders on the date fixed in the articles of association for said annual meeting, at which meeting the shareholders may, if they see fit, by a vote representing a majority of the entire stock of the bank, remove the liquidating agent or committee and appoint another in place thereof; that a special meeting of the shareholders may be called at any time in the same manner as if the bank continued an active bank, and at said meeting the shareholders may, by a vote of the majority of the stock, remove the liquidating agent or committee; that the Comptroller of the Currency is authorized to have an examination made at any time into the affairs of the liquidating bank until the claims of all creditors have been satisfied, and that the national bank examiner will be compensated for his time and expense in making the examination in question.



The foregoing resolution was adopted by the following vote, representing at least two-thirds of the capital stock of the association, no director, other officer, or employee having acted as proxy :

Name of shareholder.	Residence.	Name of proxy.	Number of shares.

*Stock voted against resolution.*

Name of shareholder.	Residence.	Name of proxy.	Number of shares.

*Stock not represented at meeting.*

Name of shareholder.	Residence.	Number of shares.

Total number of shares voted in favor of the resolution, \_\_\_\_.

Total number of shares voted against the resolution, \_\_\_\_.

Total number of shares represented at the meeting, \_\_\_\_.

Total number of shares not represented at the meeting, \_\_\_\_.

Total number of shares of capital stock, \_\_\_\_.

I hereby certify, under authority of the board of directors, that the foregoing is a true and correct report of the vote and of the resolution adopted at a meeting of the shareholders of the aforesaid bank on the date mentioned.

[SEAL OF BANK.]

\_\_\_\_\_,  
*President or Cashier.*

Subscribed and sworn to before me, this \_\_\_\_ day of \_\_\_\_, A. D. \_\_\_\_.

[SEAL OF NOTARY.]

\_\_\_\_\_,  
*Notary Public.*

106. NOTICE OF LIQUIDATION.

Notice in the following form must be published for a period of two months from date on which resolution to liquidate takes effect, in a newspaper in the city of New York and in one published in the place in which the bank is located. If the notices are published in daily newspapers they must appear in each issue for the period of two months, or, if published in weekly newspapers, they must appear in 9 consecutive issues. When publication has been made, as required by

section 5221, affidavits of the publishers to that effect should be sent to the Comptroller of the Currency, together with a slip containing notice from one issue of each paper.

The form of notice follows:

The \_\_\_\_\_ National \_\_\_\_\_ Bank \_\_\_\_\_, located at \_\_\_\_\_, in the State of \_\_\_\_\_, is closing its affairs. All note holders and other creditors of the association are therefore hereby notified to present the notes and other claims for payment.

\_\_\_\_\_,  
*President or Cashier.*

Dated, \_\_\_\_\_, 19—.

#### 107. LIQUIDATING AGENT—APPOINTMENT AND POWERS.

When a national bank has been placed in voluntary liquidation the settlement of its affairs devolves by law upon its shareholders.

The national-bank act contains no provision stating the specific manner in which the affairs of a national bank shall be liquidated, and no reference is made in the law to the appointment of an agent or trustee in liquidation, except when a national bank has been placed in the hands of a receiver and the claims of all creditors other than shareholders have been satisfied.

Quite frequently the shareholders in voting to place the bank in liquidation, also appoint a liquidating agent or committee, whose powers are not always clearly defined.

The United States Circuit Court of Appeals has held (*Jewett v. United States*, 100 Fed. Rep., 832) that while no such office as an agent in liquidation was known to the statutes, yet it was one that has long been recognized as permitted by law.

Questions have been raised as to the extent of the authority of the liquidating agent or committee and whether the appointment of such agent or committee divests the directors of their general power and control over the management of the bank.

Judge Lacombe, of the United States Circuit Court for the Southern District of New York, held in 1899, in the case of the liquidation of the Franklin National Bank of New York, that the vote to liquidate and the appointment of a committee by the shareholders to liquidate the bank did not divest the directors of their general power and control over the management of the bank. This case, however, has never been officially reported.

In recent years this office has submitted to banks proposing to liquidate a form of resolution which, after providing for the appointment of a liquidating committee, provides that liquidation shall be conducted in accordance with the laws of the State and under the general supervision of the board of directors. This form of resolution also provides that the liquidating agent or committee shall render quarterly reports to the Comptroller during the progress of liquidation.

108. FORMS OF REPORTS TO BE RENDERED BY LIQUIDATING AGENTS.

[Form of first report required to be submitted by the liquidating agent or committee of a national bank in liquidation, showing assets and liabilities on the day prior to which transfer was made; assets transferred to and liabilities assumed by the succeeding bank (if the assets were transferred to and the liabilities assumed by any other bank); assets transferred to the liquidating agent or committee and liabilities remaining unsatisfied on that date.]

Report of the condition of the \_\_\_\_\_ National Bank of \_\_\_\_\_, liquidating, and the business of which is to be acquired by the \_\_\_\_\_ Bank of \_\_\_\_\_ at the close of business on the \_\_\_\_\_ day of \_\_\_\_\_, 191—.

Charter No. \_\_\_\_\_.

Assets.	Assets at date of liquidation.	Assets transferred to—	Assets in the hands of liquidating agent.	Liabilities.	Liabilities at date of liquidation.	Liabilities assumed by—	Liabilities satisfied.
1. Loans and discounts..... 2. Overdrafts..... 3. United States bonds to secure circulation..... 4. Other United States bonds..... 5. Premium on United States bonds..... 6. Bonds securities, etc., including premium on same..... 7. Net amount invested in stock of Federal reserve bank..... 8. Banking house, furniture, and fixtures..... 9. Other real estate owned..... 10. Due from Federal reserve bank..... 11. Due from national banks..... 12. Due from State banks and bankers..... 13. Checks and other cash items..... 14. Total cash on hand..... 15. Five per cent redemption fund..... 16. Due from United States Treasurer..... 17. Due from..... 18. Due from..... Totals.....				1. Capital stock paid in..... 2. Surplus fund..... 3. Undivided profits..... 4. Reserve for taxes, etc..... 5. Circulation account..... 6. Due to Federal reserve bank..... 7. Due to national banks..... 8. Due to State banks and bankers..... 9. Individual deposits..... 10. Cashiers' and certified checks..... 11. Certificates of deposit..... 12. United States deposits..... 13. Postal savings deposits..... 14. Rediscouunts with Federal reserve bank..... 15. Rediscouunts and bills payable..... 16. Liabilities other than those above stated..... Totals.....			

We, the undersigned, being a majority of the liquidating committee, certify the above to be a true statement of the \_\_\_\_\_ National Bank of \_\_\_\_\_, liquidating, this \_\_\_\_\_ day of \_\_\_\_\_, 191—.

\_\_\_\_\_,  
\_\_\_\_\_,  
\_\_\_\_\_,  
\_\_\_\_\_,  
\_\_\_\_\_.

Liquidating Agent.

Liquidating Committee.

[Form of quarterly report required to be submitted showing progress made by the liquidating agent or committee in converting the assets into cash, satisfying the liabilities of the association, and the payment of liquidating dividends to shareholders for the quarters ending Mar. 31, June 30, Sept. 30, and Dec. 31.]

Charter No. ———.

*Report of liquidating ——— of the ——— National Bank of ———, located at ———, for the quarter ending ———, 191—.*

Assets.	On hand beginning of quarter.	Collections during quarter.	Losses on assets comprised, sold, or charged-off during quarter.	Balance on hand end of quarter.	Liabilities.	Amounts due beginning of quarter.	Liabilities paid during quarter.	Increase in undivided profits from interest, or collected from charged-off assets.	Reduction of capital stock, surplus, or undivided profits from losses on assets comprised, sold, or charged off.	Balance due quarter ending—
1. Loans and discounts.....					1. Capital stock.....					
2. Overdrafts.....					2. Surplus.....					
3. United States bonds.....					3. Undivided profits.....					
4. Other bonds.....					4. Circulation outstanding.....					
5. Banking house, furniture, and fixtures.....					5. Individual deposits.....					
6. Other real estate.....					6. Certificates of deposit.....					
7. Stocks, securities, judgments, etc.....					7. Cashiers' checks.....					
8. Due from.....					8. Due to.....					
9. Collected from interest.....					9. Due to.....					
10. Collected from rent.....					10. Due to.....					
11. Collected from charged-off assets.....					11. Rediscoumts and bills payable.....					
12. Checks and other cash items.....					12. Other liabilities.....					
13. Five per cent redemption fund.....										
14. Other assets (not cash).....										
15. Cash on hand.....										
Totals.....					Totals.....					

Total liquidating dividends paid to date, \$———. ——— per cent.



*Receipts and disbursements for quarter ending —, 191—.*

Receipts.		Disbursements.	
1. Cash on hand at beginning of quarter.....		1. Paid depositors.....	
2. Collected on loans and discounts.....		2. Paid to.....	
3. Collected from charged-off assets.....		3. Paid to.....	
4. Collected from.....		4. Paid to.....	
5. Collected from.....		5. Paid shareholders:	
6. Collected from.....		Per cent dividend on capital stock.....	
7. Collected from.....		Per cent dividend on capital stock.....	
8. Collected from.....		6. Cash on hand at end of quarter.....	
Total.....		Total.....	

I certify the above to be correct.

Dated —, 191—.

—, Agent.

After a national bank has gone into liquidation the officers have no authority to bind the shareholders by the transaction of any business except that necessarily involved in the winding up of its affairs unless such authority has been expressly conferred by the shareholders. (*Schrader v. Manufacturers National Bank*, 133 U. S., 67; *Richmond v. Irons*, 121 U. S., 27.)

While the matter does not appear to be provided for by law, it would seem advisable in all cases to have the liquidating agent or committee secure the authority of the board of directors before disposing of real estate or other assets of the bank.

#### 109. ELECTION OF OFFICERS DURING LIQUIDATION.

A national bank that has voted to go into liquidation may continue to elect officers and directors for the purpose of effecting liquidation, but after the expiration of the term of its charter the stock is not transferable so as to give the transferee the right to share in the election of directors, and such transferee not being a shareholder is ineligible as a director under section 5145, United States Revised Statutes. (*Richards v. Attleboro National Bank*, 148 Mass., 187; 3 N. B. C., 495.)

#### 110. LIQUIDATION AT EXPIRATION OF CHARTER.

Section 7 of the act of July 12, 1882, provides that national banking associations, the corporate existence of which has expired or shall hereafter expire, and which do not avail themselves of the provisions of this act, shall be required to comply with the provisions of sections 5221 and 5222 in the same manner as if the shareholders had voted to go into liquidation, as provided in section 5220; and the provisions of sections 5224 and 5225 shall also be applicable to such associations, except as modified by this act; and the franchise of such associations is extended for the sole purpose of liquidating their affairs until such affairs are finally closed.

While, under the act, no meeting of shareholders is necessary for the purpose of voting on the question of expiration of charter (the corporate existence expiring by limitation, if not extended as provided by law), it would seem advisable to call the shareholders together before date of expiration of charter, for exchange of views and the taking of such action as may be deemed necessary with regard to closing the affairs of the bank after the charter has expired.

After the charter of a bank is permitted to expire, the president or cashier should execute and forward to the Comptroller of the Currency certificate to that effect, in the following form:

## CERTIFICATE OF EXPIRATION OF CORPORATE EXISTENCE.

——— NATIONAL ——— BANK ———,  
 ———, ———, ———.

To the COMPTROLLER OF THE CURRENCY,

*Washington.*

SIR: It is hereby certified that the corporate existence of ———, located at ———, in the State of ———, having expired at close of business on the ——— day of ———, ———, the bank is now closing its affairs under the provisions of section 7 of the act of July 12, 1882.

In testimony whereof I have, by instruction of the board of directors of said association, hereto subscribed my name and affixed the seal of said association at ———, aforesaid, the day and year above written.

[SEAL OF BANK.]

———, ———,  
*President or Cashier.*

Notice of liquidation by reason of expiration of corporate existence must be published for a period of two months in a newspaper in the city of New York, and also in a newspaper published in the place in which the bank is located. (See sec. 5221, Rev. Stat.) Certificates of the publishers that the required publication has been made, together with a slip containing notice from one issue of each paper, should be sent to the Comptroller of the Currency. Form for use in this connection follows:

## NOTICE.

The ——— National ——— Bank ———, located at ———, in the State of ———, is closing up its affairs, its corporate existence having expired at close of business on the ——— day of ———, ———. All note holders and others, creditors of said association, are therefore hereby notified to present the notes and other claims against the association for payment.

———, ———,  
*President or Cashier.*

Dated ———, ———.

The settlement of the affairs of a bank, at expiration of charter, should be effected in the same manner as in the case of liquidation by resolution of shareholders.

## CHAPTER 9.

### BRANCH BANKS.

111. Domestic branch banks.

| 112. Foreign branch banks.

#### 111. DOMESTIC BRANCH BANKS.

The only provision in the national-bank act relating to branch banks is found in section 5155, United States Revised Statutes, and reads as follows:

It shall be lawful for any bank or banking association, organized under State laws and having branches, the capital being joint and assigned to and used by the mother bank and branches in definite proportions, to become a national banking association in conformity with existing laws and to retain and keep in operation its branches, or such one or more of them as it may elect to retain. \* \* \*

The granting of this special privilege to converting State banks and the absence of any similar provision in the law with respect to domestic branches of national banks of primary organization have always been construed by the Comptroller to imply that banks of the latter class were not permitted to have domestic branches. The section cited absolutely restricts branch banks of converted associations to such as have a definite proportion of the capital of the parent bank assigned to them, and it is not to be assumed that the law contemplated that associations of primary organization should be permitted to assign any portion of their capital to and operate domestic branches.

This fact is further to be inferred from section 5138, United States Revised Statutes, which prohibits the formation of associations with less capital than \$200,000 in cities of population exceeding 50,000, and with less than a specified capital in places with population less than 50,000.

To permit the establishment of domestic branch banks would not only render possible an evasion of the provisions of section 5138, but tend to discourage the organization of banking associations which, in the absence of such branches, might be formed.

Section 5134 provides in part that the organization certificate of a national bank shall show "the place where its operations of discount and deposit are to be carried on," and section 5190 that "the usual business of each national banking association shall be transacted at an office or banking house (not offices or banking houses) located in the place (not places) specified in its organization certificate."



The words "place" and "at an office or banking house" have always been construed by the Comptroller to mean the legal domicile of the corporation, and this construction is sustained by the Solicitor of the Treasury in an opinion rendered August 10, 1899, on the question of the right of a national bank to establish and maintain an auxiliary cash room at some point distant from its banking house, for the purpose of receiving deposits and paying checks. The solicitor says:

This section (5190, U. S. Rev. Stat.) contemplates that the usual business of a national banking association shall be transacted at one office or banking house, and as receiving deposits and paying checks belong to the "usual business" of a bank, I am of the opinion that the statute does not authorize the establishment of an auxiliary cash room in a different part of the city for the purpose proposed. Besides, it may be observed that if a national banking association can lawfully establish and maintain a separate office for receiving deposits and paying checks, it could as well establish as many such auxiliary cash rooms in the city of its corporate residence as its business might require; and, indeed, the entire business of the bank might be parceled out and conducted in the same way all over the city.

The District Court of the United States, in the case of *Armstrong v. Second National Bank of Springfield* (38 Fed. Rep., 883), involving among other things the question of the right of a national bank to cash a check elsewhere than at its banking house, held that—

Under this section (5190) it certainly would not be competent for a national bank to provide for the cashing of checks upon it at any other place than at its office or banking house.

If, therefore, it is unlawful for a national bank to cash a check elsewhere than at its banking house, it is likewise unlawful for it to discount notes or to receive deposits elsewhere, for one is as much a part of the "usual business" of a bank as the other. As it is obviously impossible for a bank to transact its entire business within the four walls of any single building, it is not held that the law contemplates that the "entire business," as distinguished from its "usual business," shall be transacted in its banking house.

In the case of *The Merchants National Bank of Boston v. The State National Bank* (10 Wall., 604) it was held in this connection that—

The provision requiring the "usual business" of the association to be transacted "at an office or banking house specified in its organization certificate" must be construed reasonably, and a part of the legitimate business of the association which can not be transacted at the banking house may be done elsewhere.

The question involved in this case was the right of the bank's officers to purchase gold elsewhere than at its banking house, and the court held that—

The gold must necessarily have been bought, if at all, at the buying or selling bank or at some third locality. The power to pay was vital to the power to buy, and inseparable from it.

The "legitimate business" of a bank, therefore, which a reasonable construction of the law would permit to be done elsewhere than at its banking house would seem to be restricted to transactions similar in character to that involved in the decision quoted, and not the ordinary and usual business of receiving deposits and cashing checks.

While the national-bank act does not expressly prohibit the establishment and maintenance of domestic branch banks or agencies by associations of primary organization, the implication to that effect is clear, and the Attorney General of the United States, in an opinion rendered on May 11, 1911 (before the passage of the Federal reserve act, authorizing the establishment of branches in foreign countries, dependencies or insular possessions of the United States), in the case of the Lowry National Bank of Atlanta, Ga., which desired to establish branch banks within the limits of that city, held that—

First. Independently of section 5190, Revised Statutes, a national bank is not, under its charter, authorized to establish a branch or coordinate office for the purpose of carrying on a general banking business in the place designated in its certificate of organization; and,

Second. That section 5190, Revised Statutes, properly construed, restricts the carrying on of the general banking business by a national bank to one office or banking house in the place designated in the association's certificate of organization.

That the act does not contemplate the operation of domestic branch banks by national banks of primary organization is evidenced by the fact that in 1892 a special act was approved authorizing the operation of a branch by a Chicago national bank on the World's Fair grounds. In 1901 similar legislation was enacted by Congress in connection with the Louisiana Purchase Exposition, held in 1904.

## 112. FOREIGN BRANCH BANKS.

Section 25 of the Federal reserve act, as amended by the act of September 7, 1916, contains the following provision:

Any national banking association possessing a capital and surplus of \$1,000,000 or more may file application with the Federal Reserve Board for permission to exercise, upon such conditions and under such regulations as may be prescribed by the said board, either or both of the following powers:

First. To establish branches in foreign countries or dependencies or insular possessions of the United States for the furtherance of the foreign commerce of the United States, and to act if required to do so as fiscal agents of the United States.

Second. To invest an amount not exceeding in the aggregate ten per centum of its paid-in capital stock and surplus in the stock of one or more banks or

corporations chartered or incorporated under the laws of the United States or of any State thereof, and principally engaged in international or foreign banking, or banking in a dependency or insular possession of the United States either directly or through the agency, ownership, or control of local institutions in foreign countries, or in such dependencies or insular possessions.

Such application shall specify the name and capital of the banking association filing it, the powers applied for, and the place or places where the banking operations proposed are to be carried on. The Federal Reserve Board shall have power to approve or to reject such application in whole or in part if for any reason the granting of such application is deemed inexpedient, and shall also have power from time to time to increase or decrease the number of places where such banking operations may be carried on.

Every national banking association operating foreign branches shall be required to furnish information concerning the condition of such branches to the Comptroller of the Currency upon demand, and every member bank investing in the capital stock of banks or corporations described under subparagraph two of the first paragraph of this section shall be required to furnish information concerning the condition of such banks or corporations to the Federal Reserve Board upon demand, and the Federal Reserve Board may order special examinations of the said branches, banks, or corporations at such time or times as it may deem best.

Before any national bank shall be permitted to purchase stock in any such corporation the said corporation shall enter into an agreement or undertaking with the Federal Reserve Board to restrict its operations or conduct its business in such manner or under such limitations and restrictions as the said board may prescribe for the place or places wherein such business is to be conducted. If at any time the Federal Reserve Board shall ascertain that the regulations prescribed by it are not being complied with, said board is hereby authorized and empowered to institute an investigation of the matter, and to send for persons and papers, subpoena witnesses, and administer oaths in order to satisfy itself as to the actual nature of the transactions referred to. Should such investigation result in establishing the failure of the corporation in question, or of the national bank or banks which may be stockholders therein, to comply with regulations laid down by the said Federal Reserve Board, such national banks may be required to dispose of stockholdings in the said corporation upon reasonable notice.

Every such national banking association shall conduct the accounts of each foreign branch independently of the accounts of other foreign branches established by it and of its home office, and shall at the end of each fiscal period transfer to its general ledger the profit or loss accrued at each branch as a separate item.

Any director or other officer, agent, or employee of any member bank may, with the approval of the Federal Reserve Board, be a director or other officer, agent, or employee of any such bank or corporation above mentioned in the capital stock of which such member bank shall have invested as hereinbefore provided, without being subject to the provisions of section eight of the act approved October fifteenth, nineteen hundred and fourteen, entitled "An act to supplement existing laws against unlawful restraints and monopolies, and for other purposes."



## CHAPTER IX.

### TRUST AND SAVINGS DEPARTMENTS.

- |  |   |
|--|---|
| 113. Trust powers of national banks—<br>Statutory provisions and regulations of the Federal Reserve Board. | 115. Form used in connection with the granting of trust company powers. |
| 114. Issuance of permit to exercise trust company powers to trust company converting into national bank.   | 116. Savings departments of national banks.                             |

### 113. TRUST POWERS OF NATIONAL BANKS—STATUTORY PROVISIONS AND REGULATIONS OF THE FEDERAL RESERVE BOARD.

#### I. STATUTORY PROVISIONS.

The Federal reserve act as amended by the act of September 26, 1918, provides in part:

(SEC. 11.) The Federal Reserve Board shall be authorized and empowered:

(k) To grant by special permit to national banks applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State in which the national bank is located.

Whenever the laws of such State authorize or permit the exercise of any or all of the foregoing powers by State banks, trust companies, or other corporations which compete with national banks, the granting to and the exercise of such powers by national banks shall not be deemed to be in contravention of State or local law within the meaning of this act.

National banks exercising any or all of the powers enumerated in this subsection shall segregate all assets held in any fiduciary capacity from the general assets of the bank and shall keep a separate set of books and records showing in proper detail all transactions engaged in under authority of this subsection. Such books and records shall be open to inspection by the State authorities to the same extent as the books and records of corporations organized under State law which exercise fiduciary powers, but nothing in this act shall be construed as authorizing the State authorities to examine the books, records, and assets of the national bank which are not held in trust under authority of this subsection.



No national bank shall receive in its trust department deposits of current funds subject to check or the deposit of checks, drafts, bills of exchange, or other items for collection or exchange purposes. Funds deposited or held in trust by the bank awaiting investment shall be carried in a separate account and shall not be used by the bank in the conduct of its business unless it shall first set aside in the trust department United States bonds or other securities approved by the Federal Reserve Board.

In the event of the failure of such bank the owners of the funds held in trust for investment shall have a lien on the bonds or other securities so set apart in addition to their claim against the estate of the bank.

Whenever the laws of a State require corporations acting in a fiduciary capacity to deposit securities with the State authorities for the protection of private or court trusts, national banks so acting shall be required to make similar deposits and securities so deposited shall be held for the protection of private or court trusts, as provided by the State law.

National banks in such cases shall not be required to execute the bond usually required of individuals if State corporations under similar circumstances are exempt from this requirement.

National banks shall have power to execute such bond when so required by the laws of the State.

In any case in which the laws of a State require that a corporation acting as trustee, executor, administrator, or in any capacity specified in this section, shall take an oath or make an affidavit, the president, vice president, cashier, or trust officer of such national bank may take the necessary oath or execute the necessary affidavit.

It shall be unlawful for any national banking association to lend any officer, director, or employee any funds held in trust under the powers conferred by this section. Any officer, director, or employee making such loan, or to whom such loan is made, may be fined not more than \$5,000, or imprisoned not more than five years, or may be both fined and imprisoned, in the discretion of the court.

In passing upon applications for permission to exercise the powers enumerated in this subsection, the Federal Reserve Board may take into consideration the amount of capital and surplus of the applying bank, whether or not such capital and surplus is sufficient under the circumstances of the case, the needs of the community to be served, and any other facts and circumstances that seem to it proper, and may grant or refuse the application accordingly: *Provided*, That no permit shall be issued to any national banking association having a capital and surplus less than the capital and surplus required by State law of State banks, trust companies, and corporations exercising such powers.

## II. APPLICATIONS.

A national bank desiring to exercise any or all of the powers authorized by section 11 (*k*) of the Federal reserve act, as amended by the act of September 26, 1918, shall make application to the Federal Reserve Board, on a form approved by said board, for a special permit authorizing it to exercise such powers. In the case of an original application—that is, where the applying bank has never been granted the right to exercise any of the powers authorized by section 11 (*k*), the application should be made on Form 61. In the case of a supplemental application—that is, where the applying bank has already been granted the right to exercise one or more of the powers authorized by section 11 (*k*), the application should be made on Form 61-b. Both forms are made a part of this regulation and may be obtained from the Federal Reserve Board or any Federal reserve bank.

## III. SEPARATE DEPARTMENTS.

Every national bank permitted to act under this section shall establish a separate trust department, and shall place such department under the management of an officer or officers, whose duties shall be prescribed by the board of directors of the bank.

## IV. CUSTODY OF TRUST SECURITIES AND INVESTMENTS.

The securities and investments held in each trust shall be kept separate and distinct from the securities owned by the bank and separate and distinct one from another. Trust securities and investments shall be placed in the joint custody of two or more officers or other employees designated by the board of directors of the bank and all such officers and employees shall be bonded.

## V. DEPOSIT OF FUNDS AWAITING INVESTMENT OR DISTRIBUTION.

Funds received or held in the trust department of a national bank awaiting investment or distribution may be deposited in the commercial department of the bank to the credit of the trust department, provided that the bank first delivers to the trust department, as collateral security, United States bonds, or other readily marketable securities owned by the bank, equal in market value to the amount of the funds so deposited.

## VI. INVESTMENT OF TRUST FUNDS.

(*a*) *Private trusts*.—Funds held in trust must be invested in strict accordance with the terms of the will, deed, or other instrument creating the trust. Where the instrument creating the trust contains

provisions authorizing the bank, its officers, or its directors to exercise their discretion in the matter of investments, funds held in trust may be invested only in those classes of securities which are approved by the directors of the bank. Where the instrument creating the trust does not specify the character or class of investments to be made and does not expressly vest in the bank, its officers, or its directors a discretion in the matter of investments, funds held in trust shall be invested in any securities in which corporate or individual fiduciaries in the State in which the bank is located may lawfully invest.

(b) *Court trusts*.—Except as hereinafter provided, a national bank acting as executor, administrator, or in any other fiduciary capacity, under appointment by a court of competent jurisdiction, shall make all investments under an order of that court, and copies of all such orders shall be filed and preserved with the records of the trust department of the bank. If the court by general order vests a discretion in the national bank to invest funds held in trust, or, if under the laws of the State in which the bank is located corporate fiduciaries appointed by the court are permitted to exercise such discretion, the national bank so appointed may invest such funds in any securities in which corporate or individual fiduciaries in the State in which the bank is located may lawfully invest.

#### VII. BOOKS AND ACCOUNTS.

All books and records of the trust department shall be kept separate and distinct from other books and records of the bank. All accounts opened shall be so kept as to enable the national bank at any time to furnish information or reports required by the Federal or State authorities, and such books and records shall be opened to the inspection of such authorities.

#### VIII. EXAMINATIONS.

Examiners appointed by the Comptroller of the Currency or designated by the Federal Reserve Board will be instructed to make thorough and complete audits of the cash, securities, accounts, and investments of the trust department of the bank at the same time that examination is made of the banking department.

#### IX. CONFORMITY WITH STATE LAWS.

Nothing in these regulations shall be construed to give a national bank exercising the powers permitted under the provisions of section 11 (k) of the Federal reserve act, as amended, any rights or privileges in contravention of the laws of the State in which the bank is located within the meaning of that act.



## X. REVOCATION OF PERMITS.

The Federal Reserve Board reserves the right to revoke permits granted under the provisions of section 11 (k), as amended, in any case where in the opinion of the board a bank has willfully violated the provisions of the Federal reserve act or of these regulations or the laws of any State relating to the operations of such bank when acting in any of the capacities permitted under the provisions of section 11 (k), as amended.

## XI. CHANGES IN REGULATIONS.

These regulations are subject to change by the Federal Reserve Board; provided, however, that no such change shall prejudice any obligation undertaken in good faith under regulations in effect at the time the obligation was assumed.

## 114. ISSUANCE OF PERMIT TO EXERCISE TRUST COMPANY POWERS TO TRUST COMPANY CONVERTING INTO NATIONAL BANK.

If a trust company converting into a national bank desires to have the Federal Reserve Board issue to it a permit to exercise trust powers, under the provisions of section 11 (*k*) of the Federal reserve act, simultaneously with the issue by the Comptroller of certificate authorizing the commencement of business as a national bank, it is essential that the trust company shall file an application with the Federal Reserve Board through the Federal reserve bank of its district, at or about the same time that the application is made to the Comptroller for conversion, in order that the board may determine in advance whether it may properly issue the desired permit.

In a case of this character the application blank and the resolution of the board of directors of the applying institution should be so amended as to indicate that the permit of the Federal Reserve Board is to be issued coincidently with the issuance of the Comptroller's certificate authorizing the trust company to begin business as a national bank.

## 115. FORMS USED IN CONNECTION WITH THE GRANTING OF TRUST COMPANY POWERS.

The following are the forms used in connection with application for and issuance of a permit by the Federal Reserve Board to exercise trust powers:

NOTE.—This application, when executed, should be mailed to the Chairman of the Board of Directors of the Federal Reserve Bank of your district and will be transmitted to the Federal Reserve Board by him.

District No. ———.

State of ———.

## APPLICATION OF NATIONAL BANK

For permission to act as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of



lunatics, or any other fiduciary capacity, under authority of section 11 (k) of the Federal reserve act, as amended by the act of September 26, 1918.

Under authority of a resolution of the board of directors of this bank, duly adopted and spread on the minutes of a meeting held on the \_\_\_\_ day of \_\_\_\_\_, 19\_\_, application is hereby made for a permit to act as \_\_\_\_\_ (specify the powers to be exercised) or to exercise as many of these powers as the Federal Reserve Board may allow.

[Seal of bank.]

\_\_\_\_\_ of \_\_\_\_\_,  
(Name of bank.) (City or town.)  
By \_\_\_\_\_,  
President or Vice President.

Attest:

\_\_\_\_\_,  
Secretary or Cashier.

To the FEDERAL RESERVE BOARD,  
Washington, D. C.

Statement of conditions as at close of business on \_\_\_\_\_, 19—

Name of bank \_\_\_\_\_.

Location \_\_\_\_\_(No.)\_\_\_\_\_(Street)\_\_\_\_\_(City or town)\_\_\_\_\_(State).

Population of city or town (census of 1910)\_\_\_\_\_.

ASSETS.	LIABILITIES.
Loans:	Capital stock _____ \$
On real estate _____ \$	Surplus _____
On other collateral _____	Undivided profits _____
Unsecured—	Deposits:
Customers' paper _____	Due to banks and trust
Purchased paper _____	companies _____
Acceptances (drafts ac-	Demand (individual) _____
cepted for customers	Savings _____
per contract) _____	Other time _____
Investments:	Liability on drafts, accepted
United States bonds _____	payable at a future date
Other bonds and war-	(per contract) _____
rants _____	All other liabilities _____
Stocks _____	
Real estate owned _____	
Cash due from banks and	
trust companies _____	
All other assets _____	
Total _____	Total _____

#### RESOLUTION OF BOARD OF DIRECTORS.

At a meeting of the board of directors of the \_\_\_\_\_ (Name of bank)  
of \_\_\_\_\_ (City or town and State), duly called and held on the

— day of —, 19—, the following resolution was offered, seconded, and adopted:

"Whereas it is the sense of this meeting that application should be made on behalf of this association to the Federal Reserve Board for a permit to act as ——— (Specify powers applied for) as provided in section 11 (k) of the Federal reserve act, as amended by the act approved September 26, 1918.

"Now, therefore, be it resolved, That the president or vice president and the cashier or secretary of this association be and they are hereby authorized, empowered, and directed to make application to the Federal Reserve Board for a permit giving to this association the right to act as ——— (Specify powers applied for) or to exercise as many of these powers as the Federal Reserve Board may allow, under such rules and regulations as the Federal Reserve Board may prescribe."

I hereby certify that the foregoing is a true and correct copy of a resolution passed by the board of directors of this association on the date specified, and that the foregoing statement correctly shows the condition of this bank as shown by its books on the date indicated.

\_\_\_\_\_,  
Secretary or Cashier.

\_\_\_\_\_ of \_\_\_\_\_  
(Name of bank.) (City or town.)

NOTE.—Powers that may be applied for under the statute are trustee, executor, administrator, registrar of stocks and bonds, guardian of estate, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State in which the national bank is located.

NOTE.—This application, when executed, should be mailed to the Chairman of the Board of Directors of the Federal Reserve Bank of your district and will be transmitted to the Federal Reserve Board by him.

District No. \_\_\_\_\_

State of \_\_\_\_\_

SUPPLEMENTARY APPLICATION OF NATIONAL BANK FOR ADDITIONAL FIDUCIARY POWERS.

Under authority of a resolution of the board of directors of this bank, duly adopted and spread on the minutes of a meeting held on the — day of —, 19—, application is hereby made for a permit to act as ——— (specify the powers to be exercised) or to exercise as many of these powers as the Federal Reserve Board may allow, in addition to the right to act as ——— (specify powers previously granted) heretofore granted by a permit of the board dated —, 19—.

[Seal of bank]

\_\_\_\_\_ of \_\_\_\_\_  
(Name or bank.) (City or town.)

By \_\_\_\_\_  
President or Vice President.

Attest:

\_\_\_\_\_  
Secretary or Cashier.

To the FEDERAL RESERVE BOARD,  
Washington, D. C.

*Statement of condition as at close of business on ———, 19—.*

Name of bank ———.

Location ——— (No.) ——— (Street) ——— (City or town) ——— (State).

Population of city or town (census of 1910) ———.

ASSETS.	LIABILITIES.
<p>Loans:</p> <p>On real estate----- \$</p> <p>On other collateral-----</p> <p>Unsecured—</p> <p>    Customers' paper----</p> <p>    Purchased paper----</p> <p>Acceptances (drafts accepted for customers per contract)-----</p> <p>Investments:</p> <p>    United States bonds-----</p> <p>    Other bonds and warrants -----</p> <p>    Stocks -----</p> <p>Real estate owned-----</p> <p>Cash due from banks and trust companies-----</p> <p>All other assets-----</p> <p>Total -----</p>	<p>Capital stock----- \$</p> <p>Surplus -----</p> <p>Undivided profits -----</p> <p>Deposits:</p> <p>    Due to banks and trust companies-----</p> <p>    Demand (individual) ---</p> <p>    Savings -----</p> <p>    Other time-----</p> <p>Liability on drafts, -accepted payable at a future date (per contract)-----</p> <p>All other liabilities-----</p> <p>Total -----</p>

#### RESOLUTION OF BOARD OF DIRECTORS.

At a meeting of the board of directors of the ——— (name of bank) of ——— (city or town and State), duly called and held on the ——— day of ———, 19—, the following resolution was offered, seconded, and adopted:

“Whereas by permit dated ———, 19—, the Federal Reserve Board granted to this association the right to act as ——— (specify powers previously granted) under authority of section 11 (*k*) of the Federal reserve act;

“And whereas it is the sense of this meeting that application should be made on behalf of this association to the Federal Reserve Board for a permit to act as ——— (specify new powers applied for), as provided in section 11 (*k*) of the Federal reserve act, as amended by the act approved September 26, 1918;

“Now, therefore, be it resolved, That the president or vice president and the cashier or secretary of this association be and they are hereby authorized, empowered, and directed to make application to the Federal Reserve Board for a permit giving to this association the right to act as ——— (specify new powers applied for), or to exercise as many of these powers as the Federal Reserve Board may allow, in addition to those heretofore granted, under such rules and regulations as the Federal Reserve Board may prescribe.”

I hereby certify that the foregoing is a true and correct copy of a resolution passed by the board of directors of this association on the date specified, and

that the foregoing statement correctly shows the condition of this bank as shown by its books on the date indicated.

\_\_\_\_\_,  
Secretary or cashier.

\_\_\_\_\_ of \_\_\_\_\_  
(Name of bank.) (City or town.)

NOTE.—Powers that may be applied for under the statute as amended are trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State in which the national bank is located.

PERMITS ISSUED BY FEDERAL RESERVE BOARD.

*Form of permit when all powers authorized by the act are granted.*

FEDERAL RESERVE BOARD,  
Washington, D. C., \_\_\_\_\_, 19—

Pursuant to authority vested in the Federal Reserve Board by the act of Congress approved December 23, 1913, known as the Federal reserve act, as amended by the act of September 26, 1918, the \_\_\_\_\_, has been granted the right to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks, are permitted to act under the laws of the State of \_\_\_\_\_. The exercise of such rights shall be subject to regulations prescribed by the Federal Reserve Board.

FEDERAL RESERVE BOARD,  
By \_\_\_\_\_,  
Governor.

Attest:

\_\_\_\_\_,  
Secretary.

*Form of permit when only a portion of the powers authorized by the act are granted.*

Washington, D. C., \_\_\_\_\_, 19—

Pursuant to authority vested in the Federal Reserve Board by the act of Congress approved December 23, 1913, known as the Federal reserve act, as amended by the act of September 26, 1918, the \_\_\_\_\_, has been granted the right to act, when not in contravention of State or local law, as \_\_\_\_\_.

The exercise of such rights shall be subject to regulations prescribed by the Federal Reserve Board.

FEDERAL RESERVE BOARD,  
By \_\_\_\_\_,  
Governor.

Attest:

\_\_\_\_\_,  
Secretary.



## 116. SAVINGS DEPARTMENT.

There is nothing in the national-bank act or the Federal reserve act authorizing the operation of a savings department, and as the capital, deposits, and all other funds of a national bank may be loaned or otherwise invested only in conformity with the provisions of law, it follows that the sole business of a savings bank which can be legally transacted by a national bank is the paying of interest on deposits.

The counsel for the Federal Reserve Board has rendered an opinion that the Federal law relating to the establishment and operation of national banks is superior to and controlling over a State law which might otherwise apply to or govern the operation of national banks. Congress having conferred on national banks the power to pay interest on time deposits, it is evident that the right to advertise and solicit such savings accounts is a necessary incident to the exercise of that power, and that no State law can interfere with its exercise.

## CHAPTER 11.

### BANKS ACTING AS INSURANCE AGENTS AND AS BROKERS AND AGENTS MAKING OR PROCURING LOANS ON REAL ESTATE.

- |  |                                     |
|--|-------------------------------------|
| 117. Statutory provisions.             | 122. Regulations prescribed by the  |
| 118. National bank as insurance agent. | Comptroller for national banks      |
| 119. Regulations governing national    | which may undertake to act as       |
| banks in acting as insurance           | agents or brokers in making or      |
| agents.                                | procuring loans on real estate.     |
| 120. Form for certificate covering in- | 123. Application of bank to be per- |
| surance agency.                        | mitted to act as broker or agent    |
| 121. National bank as broker or agent  | in procuring loans on real es-      |
| in making or procuring loans           | tate.                               |
| on real estate.                        |                                     |

#### 117. STATUTORY PROVISION.

An amendment to the Federal reserve act approved September 7, 1916, provides:

“That in addition to the powers now vested by law in national banking associations organized under the laws of the United States any such association located and doing business in any place the population of which does not exceed five thousand inhabitants, as shown by the last preceding decennial census, may, under such rules and regulations as may be prescribed by the Comptroller of the Currency, act as the agent for any fire, life, or other insurance company authorized by the authorities of the State in which said bank is located to do business in said State, by soliciting and selling insurance and collecting premiums on policies issued by such company; and may receive for services so rendered such fees or commissions as may be agreed upon between the said association and the insurance company for which it may act as agent; and may also act as the broker or agent for others in making or procuring loans on real estate located within one hundred miles of the place in which said bank may be located, receiving for such services a reasonable fee or commission: *Provided, however,* That no such bank shall in any case guarantee either the principal or interest of any such loans or assume or guarantee the payment of any premium on insurance policies issued through its agency by its principal: *And provided further,* That the bank shall not guarantee the truth of any statement made by an assured in filing his application for insurance.”

## 118. NATIONAL BANK AS INSURANCE AGENT.

In order to avail itself of the provisions of this act relative to acting as agent for an insurance company:

(a) The bank must be located in a place the population of which does not exceed 5,000 as shown by the last preceding decennial census.

(b) The insurance company for which the bank acts as agent must have been authorized by the authorities of the State in which the bank is located to do business in that State.

(c) The activities of the bank as such agent must be restricted to the soliciting and selling of insurance and the collection of premiums on policies issued by the insurance company.

(d) The bank may receive for services so rendered such lawful fees or commissions as may be agreed upon between the bank and the insurance company for which it may act as agent.

(e) The bank is prohibited from assuming or guaranteeing the payment of any premium on insurance policies issued, through its agency, by its principal.

(f) The bank is prohibited from guaranteeing the truth of any statement made by an assured in filing his application for insurance.

(g) The powers conferred are to be exercised under such regulations as may be prescribed by the Comptroller of the Currency.

## 119. REGULATIONS GOVERNING NATIONAL BANKS IN ACTING AS INSURANCE AGENTS.

In pursuance of the act of September 7, 1916, the Comptroller prescribed the following regulations for national banks which may undertake to act as agents for insurance companies:

1. Each contract of agency must be formally accepted by the board of directors of the agent bank by a resolution spread upon the minutes in the following form:

Be it resolved that the contract of agency entered into on ———, 191—, between the ——— Insurance Company and the ——— National Bank of ———, by ——— president (or vice president) and ——— cashier, a copy of which is on file in this bank, is hereby ratified and approved.

2. A certified copy of such resolution, attested by the president or vice president and by the cashier and by a majority of the directors of the bank, must be forwarded to this office on forms to be furnished by this office.

3. There should be on file in the bank, available for inspection by the examiner, the following documents:

(a) An authoritative statement showing the population of the town according to the last preceding decennial census.

(b) A proper certificate from the authorities of the State in which the bank is located showing as to each insurance company for which the bank is acting as agent that such company has received authority from the said State to transact business in that State.

(c) A proper certificate or other writing of each insurance company for which the bank acts, authorizing the bank to act as its agent, setting forth that the bank does not guarantee the payment of any premium on insurance policies issued through its agency by its principal, and stating that the bank is not to be held responsible for the truth of any statement made by an assured in filing his application for insurance.

(d) Copies of all reports made by the agent bank to each insurance company which it represents.

4. The bank will be required to keep a record as to each company for which it acts as agent, showing: For fire insurance: The amount of each policy, the rate and premium, date of commencement, term, and date of expiration, as well as a description of property insured with name of assured and to whom loss is payable. As to life insurance: Amount and date of policy, with premium, and a statement as to under what form the insurance is written, giving also name of assured and beneficiary. As to any and all other forms of insurance: The fullest possible particulars as to amounts, dates, rates, premiums, and what is insured by the policy, and of collection of all premiums collected for account of the company, refunds made, the proportion of premium credited to the profits of the bank under its agreement with the company, the proportion due the company, the amounts and dates of all remittances made to the insurance company on account of premiums collected, and the balance, if any, due from the bank to the insurance company.

5. The bank will be required to carry on its general ledger an account which will, at all times, show the amount due to insurance companies for which it is acting as agent, on account of premiums collected but not remitted, and this liability must be shown in reports of condition and in the published statements of the bank under the heading "other liabilities—on account of insurance premiums collected and not remitted," unless specifically provided for in the report.

6. The bank should also keep such records as may be required by each insurance company in the manner and under the forms prescribed by the various companies; all of which should be available for inspection by the examiner on request.

7. The agent bank must not assume any responsibility or liability for either the adjustment, settlement, or payment of losses under any policy issued by or through its agency.



8. The records of all profits derived from the insurance agency should be carried in a separate account on the books of the bank, and the records should be so kept as to enable the examiner readily to trace to the source all items of profit derived in this connection.

## 120. FORM FOR CERTIFICATE COVERING INSURANCE AGENCY.

NATIONAL BANK DESIRING TO ACT AS AGENT FOR INSURANCE COMPANIES.

\_\_\_\_\_, 19\_\_\_\_

THE COMPTROLLER OF THE CURRENCY,

*Washington, D. C.*

SIR: The \_\_\_\_\_ (title and location of bank) being located in a town the population of which does not exceed 5,000, as shown by the last preceding decennial census, desires to act as agent for the \_\_\_\_\_ Insurance Company, under authority of section 13 of the Federal reserve act, as amended September 7, 1916.

Therefore, we, directors and officers of this bank, in conformity with the rules prescribed by the Comptroller of the Currency, certify that the following is a true and complete copy of resolution adopted by the directors at a meeting held \_\_\_\_\_ and spread upon the minutes:

"*Be it resolved*, That the contract of agency entered into on \_\_\_\_\_, 19\_\_\_\_, between the \_\_\_\_\_ Insurance Company and the \_\_\_\_\_ National Bank of \_\_\_\_\_, by \_\_\_\_\_, president (or vice president) and \_\_\_\_\_, cashier, a copy of which is on file in this bank, is hereby ratified and approved."

Respectfully,

[SEAL OF BANK.]

\_\_\_\_\_,  
*President or Vice President.*

\_\_\_\_\_,  
*Cashier.*

\_\_\_\_\_,  
\_\_\_\_\_,  
\_\_\_\_\_,  
\_\_\_\_\_,  
\_\_\_\_\_,  
*Directors.*

(A majority must sign.)

(A certificate must be furnished to this office in connection with each insurance company for which the bank will act as agent.)

## 121. NATIONAL BANK AS BROKER OR AGENT IN MAKING OR PROCURING LOANS ON REAL ESTATE.

In order to avail itself of this privilege:

(a) The bank must be located in a place the population of which does not exceed 5,000 as shown by the last preceding decennial census.

(b) The real estate by which the loans negotiated are secured must be located within 100 miles of the place in which the negotiating bank is located.

(c) The bank may receive for such services a reasonable fee or commission.

(*d*) The bank shall in no case guarantee either the principal or interest of any such loans.

(*e*) The powers conferred are to be exercised under such regulations as may be prescribed by the Comptroller of the Currency.

122. REGULATIONS PRESCRIBED BY THE COMPTROLLER FOR NATIONAL BANKS WHICH MAY UNDERTAKE TO ACT AS AGENTS OR BROKERS IN MAKING OR PROCURING LOANS ON REAL ESTATE.

1. A bank intending to avail itself of this provision of the law must adopt by its board of directors a resolution in the following form:

*Be it resolved*, That the officers of the ——— National Bank of ——— are hereby authorized and empowered on behalf of this bank, as broker or agent, to accept from customers of this bank deposits of funds to be invested for account of said customers, in loans secured by real estate, and to procure, as broker or agent, for customers of this bank loans which shall be secured by real estate, under the provisions of the act approved September 7, 1916: *Provided*, That the investment of such funds as stated, and all such procuring of loans or lending of funds for clients shall be undertaken only under written instructions from the customer for whom this bank, through its officers, may act as broker or agent, such written instructions in each case to be first delivered to an officer of this bank. Such instructions shall, in all cases, state clearly that the bank in acting as broker or agent in no way guarantees payment of either the principal or interest of any loan so negotiated.

2. A certified copy of such resolution, attested by the president or vice president and cashier and by a majority of the directors of the bank, must be forwarded to this office, on forms to be furnished by this office.

3. No bank shall charge more than one commission or brokerage on the making of any loan; that is to say, if it shall charge a brokerage or commission to the party borrowing the money, it shall not charge a brokerage or commission to the party to whom money is so loaned, and vice versa.

4. Each bank acting under this provision of law will be required to keep a record showing as to each loan negotiated by the bank—

(*a*) The name and address of the principal for whom the bank is acting,

(*b*) Date of written instructions from the principal,

(*c*) Name and address of maker of note,

(*d*) Date of note,

(*e*) Date of maturity of note,

(*f*) Brief description of property securing note, showing location and distance from place in which bank is located,

(*g*) Character of improvements, etc.,

(h) Name and address of party to whom note was transferred or delivered by the bank,

(i) Date of such transfer or delivery,

(j) Amount of principal of note,

(k) Rate of interest or discount,

(l) Rate of commission or brokerage charged by bank for acting as broker or agent, and

(m) Amount of such commission or brokerage, and whether said commission was paid by borrower of the money or by the party for whom it was loaned.

5. A book should be kept showing the date on which each mortgage or deed of trust negotiated by the bank has been admitted to record, the court in which the same is recorded, and the recordation fees paid in each case.

6. The records of all profits derived from acting as broker or agent in negotiating loans on real estate should be carried in a separate account on the books of the bank, and the records should be so kept as to enable the examiner readily to trace to the source all items of profit derived in this connection.

7. Deposits of money received by the bank as broker or agent to be invested in loans secured by real estate as prescribed by law, must be treated as trust funds and kept separate and apart from the other assets of the bank. Such funds must in no case be permitted to pass from the possession of the bank until the loan for which they are to be paid out is formally accepted by or in behalf of the party for whose account negotiated.

8. No bank shall advance or use its own funds in connection with real estate loans negotiated as broker or agent.

9. No loans secured by real estate, which the bank has negotiated as broker or agent, should become a part of the assets of the bank even temporarily, unless such loans conform to the provisions of section 24 of the Federal reserve act, as amended.

10. There should be available in the bank for inspection by the national bank examiner—

(a) An authoritative statement showing the population of the town according to the last preceding decennial census.

(b) All records pertaining to the negotiation of real estate loans as broker or agent.

### 123. APPLICATION OF BANK TO BE PERMITTED TO ACT AS BROKER OR AGENT IN PROCURING LOANS ON REAL ESTATE.

National banks acting as broker for the placing of loans should prepare blank forms of application to be executed by applicants for loans. These applications should show—

- (a) Location of property.
- (b) Acreage.
- (c) Assessed valuation.
- (d) Estimated present value.
- (e) Brief descriptions of buildings thereon and estimated value of them.
- (f) Whether buildings are insured, and, if so, for what amounts and in what companies.
- (g) Whether property is already incumbered, and, if so, for what amount.
- (h) If property is farm property applicant should state whether or not the dwelling is provided with sanitary arrangements approved by the local board of health, and, if not, what sanitary arrangements there are.

At the foot of this application should be printed below the signature of the applicant a statement to the effect that "The statements in the foregoing application have been submitted to this bank by the applicant for the loan, but this bank does not undertake to guarantee the correctness of any of the statements made by the applicant."

If any applicant for a loan makes statements in his application which any officers of the bank before whom the application may come may have reason to think are not correct, the attention of the applicant should be called to the possible discrepancy.

NATIONAL BANK DESIRING TO ACT AS BROKER OR AGENT IN MAKING OR PROCURING  
LOANS ON REAL ESTATE.

\_\_\_\_\_. 19\_\_\_\_.

THE COMPTROLLER OF THE CURRENCY,  
Washington, D. C.

SIR: The \_\_\_\_\_ (title and location of bank) doing business in a town having a population which does not exceed 5,000, as shown by the last preceding decennial census, desires to undertake the business of acting as agent or broker in the making or procuring of loans on real estate, under authority of section 13 of the Federal reserve act, as amended September 7, 1916.

Therefore, we, directors and officers of this bank, in conformity with the rules prescribed by the Comptroller of the Currency, certify that the following is a true and complete copy of resolution adopted by the directors at a meeting held \_\_\_\_\_ and spread upon the minutes:

"*Be it resolved*, That the officers of the \_\_\_\_\_ National Bank of \_\_\_\_\_ are hereby authorized and empowered on behalf of this bank, as broker or agent, to accept from customers of this bank deposits of funds to be invested for account of said customers, in loans secured by real estate, and to procure, as broker or agent for customers of this bank, loans which shall be secured by real estate under the provisions of the act approved September 7, 1916: *Provided*, That the investment of such funds as stated, and all such procuring of loans or lending of funds for clients, shall be undertaken only under written instructions from the customer for whom this bank, through its officers, may act as broker



or agent, such written instructions in each case to be first delivered to an officer of this bank. Such instructions shall, in all cases, state clearly that the bank in acting as broker or agent in no way guarantees payment of either the principal or interest of any loan so negotiated."

Respectfully,

[SEAL OF BANK.]

\_\_\_\_\_,  
*President or Vice President.*

\_\_\_\_\_,  
*Cashier.*

\_\_\_\_\_,  
\_\_\_\_\_,  
\_\_\_\_\_,  
*Directors.*

(A majority must sign.)

## CHAPTER 12.

### DEPOSITS AND REDISCOUNTS WITH FEDERAL RESERVE BANKS.

- |  |   |
|--|---|
| 124. Deposit of funds or of notes and bills for collection by member bank in Federal reserve bank.   | 128. Acceptance of drafts or bills of exchange upon national banks by banks or bankers in foreign countries or dependencies of the United States. |
| 125. Rediscount of notes, drafts, and bills of exchange by Federal reserve bank for member bank.     | 129. Purchase and discount by Federal reserve banks of obligations secured by bonds of War Finance Corporation.                                   |
| 126. Acceptances and limitations thereof—Rediscount of by Federal reserve bank for member bank.      | 130. Loans by Federal reserve bank to member bank.  |
| 127. Rediscount of paper secured by bonds or notes of the United States issued since April 24, 1917. |   |

#### 124. DEPOSIT OF FUNDS OR OF NOTES AND BILLS FOR COLLECTION BY MEMBER BANK IN FEDERAL RESERVE BANK.

(Act Dec. 23, 1913, sec. 13, as amended Sept. 7, 1916, and June 21, 1917.) Any Federal reserve bank may receive from any of its member banks, and from the United States, deposits of current funds in lawful money, national-bank notes, Federal reserve notes, or checks, and drafts, payable upon presentation, and also, for collection, maturing notes and bills; or, solely for purposes of exchange or of collection, may receive from other Federal reserve banks deposits of current funds in lawful money, national-bank notes, or checks upon other Federal reserve banks, and checks and drafts, payable upon presentation within its district, and maturing notes and bills payable within its district; or, solely for the purposes of exchange or of collection, may receive from any nonmember bank or trust company deposits of current funds in lawful money, national-bank notes, Federal reserve notes, checks and drafts payable upon presentation, or maturing notes and bills: *Provided*, Such nonmember bank or trust company maintains with the Federal reserve bank of its district a balance sufficient to offset the items in transit held for its account by the Federal reserve bank: *Provided, further*, That nothing in this or any other section of this act shall be construed as prohibiting a member or nonmember bank from making reasonable charges, to be determined and regulated by the Federal Reserve Board, but in no case to exceed 10 cents per \$100 or fraction

thereof, based on the total of checks and drafts presented at any one time, for collection or payment of checks and drafts and remission therefor by exchange or otherwise; but no such charges shall be made against the Federal reserve banks.

125. REDISCOUNT OF NOTES, DRAFTS, AND BILLS OF EXCHANGE BY FEDERAL RESERVE BANK FOR MEMBER BANK.

(Act Dec. 23, 1913, sec. 13, as amended Sept. 7, 1916.) Upon the indorsement of any of its member banks, which shall be deemed a waiver of demand, notice and protest by such bank as to its own indorsement exclusively, any Federal reserve bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this act. Nothing in this act contained shall be construed to prohibit such notes, drafts, and bills of exchange, secured by staple agricultural products, or other goods, wares, or merchandise from being eligible for such discount; but such definition shall not include notes, drafts, or bills covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States. Notes, drafts, and bills admitted to discount under the terms of this paragraph must have a maturity at the time of discount of not more than ninety days, exclusive of days of grace: *Provided*, That notes, drafts, and bills drawn or issued for agricultural purposes or based on live stock and having a maturity not exceeding six months, exclusive of days of grace, may be discounted in an amount to be limited to a percentage of the assets of the Federal reserve bank, to be ascertained and fixed by the Federal Reserve Board.

The aggregate of such notes, drafts, and bills bearing the signature or indorsement of any one borrower, whether a person, company, firm, or corporation, rediscounted for any one bank shall at no time exceed 10 per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

126. ACCEPTANCES AND LIMITATIONS THEREOF—REDISCOUNT OF BY FEDERAL RESERVE BANK FOR MEMBER BANK.

(Act Dec. 23, 1913, sec. 13, as amended Mar. 3, 1915, Sept. 7, 1916, and June 21, 1917.) Any Federal reserve bank may discount

acceptances of the kinds hereinafter described, which have a maturity at the time of discount of not more than three months' sight, exclusive of days of grace, and which are indorsed by at least one member bank.

Any member bank may accept drafts or bills of exchange drawn upon it having not more than six months' sight to run, exclusive of days of grace, which grow out of transactions involving the importation or exportation of goods; or which grow out of transactions involving the domestic shipment of goods provided shipping documents conveying or securing title are attached at the time of acceptance; or which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples. No member bank shall accept, whether in a foreign or domestic transaction, for any one person, company, firm, or corporation to an amount equal at any time in the aggregate to more than ten per centum of its paid-up and unimpaired capital stock and surplus, unless the bank is secured either by attached documents or by some other actual security growing out of the same transaction as the acceptance; and no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half of its paid-up and unimpaired capital stock and surplus: *Provided, however,* That the Federal Reserve Board, under such general regulations as it may prescribe, which shall apply to all banks alike regardless of the amount of capital stock and surplus, may authorize any member bank to accept such bills to an amount not exceeding at any time in the aggregate one hundred per centum of its paid-up and unimpaired capital stock and surplus: *Provided further,* That the aggregate of acceptances growing out of domestic transactions shall in no event exceed fifty per centum of such capital stock and surplus.

\* \* \* \* \*

The discount and rediscount and the purchase and sale by any Federal reserve bank of any bills receivable and of domestic and foreign bills of exchange, and of acceptances authorized by this act, shall be subject to such restrictions, limitations, and regulations as may be imposed by the Federal Reserve Board.

#### 127. REDISCOUNT OF PAPERS SECURED BY BONDS OR NOTES OF THE UNITED STATES ISSUED SINCE APRIL 24, 1917.

(Act Mar. 3, 1919, amending sec. 11, Federal reserve act.) (m) Upon the affirmative vote of not less than five of its members, the Federal Reserve Board shall have power to permit Federal reserve banks to discount for any member bank notes, drafts, or bills of exchange bearing the signature or indorsement of any one bor-



rower in excess of the amount permitted by section nine and section thirteen of this act, but in no case to exceed twenty per centum of the member bank's capital and surplus: *Provided, however,* That all such notes, drafts, or bills of exchange discounted for any member bank in excess of the amount permitted under such sections shall be secured by not less than a like face amount of bonds or notes of the United States issued since April twenty-fourth, nineteen hundred and seventeen, or certificates of indebtedness of the United States: *Provided further,* That the provisions of this subsection (m) shall not be operative after December thirty-first, nineteen hundred and twenty.

128. ACCEPTANCE OF DRAFTS OR BILLS OF EXCHANGE UPON NATIONAL BANKS BY BANKS OR BANKERS IN FOREIGN COUNTRIES OR DEPENDENCIES OF THE UNITED STATES.

(Sec. 13 of Federal reserve act as amended Sept. 7, 1913.) Any member bank may accept drafts or bills of exchange drawn upon it having not more than three months' sight to run, exclusive of days of grace, drawn under regulations to be prescribed by the Federal Reserve Board by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange as required by the usages of trade in the respective countries, dependencies, or insular possessions. Such drafts or bills may be acquired by Federal reserve banks in such amounts and subject to such regulations, restrictions, and limitations as may be prescribed by the Federal Reserve Board: *Provided, however,* That no member bank shall accept such drafts or bills of exchange referred to this paragraph for any one bank to an amount exceeding in the aggregate ten per centum of the paid-up and unimpaired capital and surplus of the accepting bank unless the draft or bill of exchange is accompanied by documents conveying or securing title or by some other adequate security: *Provided further,* That no member bank shall accept such drafts or bills in an amount exceeding at any time the aggregate of one-half of its paid-up and unimpaired capital and surplus.

129. PURCHASE AND DISCOUNT BY FEDERAL RESERVE BANKS OF OBLIGATIONS SECURED BY BONDS OF WAR FINANCE CORPORATION.

(Sec. 13, act of Apr. 5, 1918, War Finance Corporation act.) That the Federal reserve banks shall be authorized, subject to the maturity limitations of the Federal reserve act and to regulations of the Federal Reserve Board, to discount the direct obligations of member banks secured by such bonds of the corporation and to rediscount eligible paper secured by such bonds and indorsed by a member bank. No discount or rediscount under this section shall be granted

at a less interest charge than one per centum per annum above the prevailing rates for eligible commercial paper of corresponding maturity.

#### 130. LOANS BY FEDERAL RESERVE BANK TO MEMBER BANK.

(Sec. 13 of Federal reserve act as amended Sept. 7, 1916.) Any Federal reserve bank may make advances to its members banks on their promissory notes for a period not exceeding fifteen days at rates to be established by such Federal reserve banks, subject to the review and determination of the Federal Reserve Board, provided such promissory notes are secured by such notes, drafts, bills of exchange, or bankers' acceptances as are eligible for rediscount or for purchase by Federal reserve banks under the provisions of this act, or by the deposit or pledge of bonds or notes of the United States.

# INDEX.

	Page.
Acceptances-----	78, 129
Acknowledgment:	
organization certificate-----	13, 29
Amendments:	
requirements relative to-----	71
Application:	
agent or broker in making loans on real estate, application for-----	124
capital, application to increase-----	52
convert State bank into national bank-----	23
organize national bank-----	5
trust company powers, application for-----	111
Appointment:	
directors-----	14, 15
liquidating agent-----	99
officers of association-----	16
Articles of association:	
amendment of, for extension of charter-----	65
amendment of, for reextension of charter-----	69
converted State banks, form of-----	27
form of-----	11
requisites of-----	10
Assignment:	
form of assignment of temporary certificate of stock-----	10
Authority:	
commencement of business or charter-----	18
Bonds:	
assigned to treasurer in trust-----	31
coupon may be exchanged-----	31
exchange of-----	31
extension of charter, need not be transferred-----	68
interest on, how paid-----	31
of officers-----	45
procured, how-----	31
withdrawal of portion-----	32
withdrawal of, under section 18 of Federal Reserve Act-----	32
Branch banks:	
domestic-----	105
foreign-----	107
Broker—Real estate loans:	
application of bank to be permitted to act as broker or agent in pro- curing loans on real estate-----	124
broker—when national bank may act as broker or agent in making or procuring loans on real estate-----	122
regulations governing national banks acting as agent or broker in making or procuring loans on real estate-----	123
statutory provisions-----	119
By-laws:	
form of-----	44-47

	Page.
Capital stock:	
impaired capital, restoration of-----	60-64
assessment certificate of payment of-----	63
notice to bank of impairment of capital-----	60
notice to shareholders of impairment of capital-----	61
resolution to restore impaired capital-----	62
shareholders' sale of stock of delinquent shareholders-----	64
increase of capital—	
application to increase capital-----	52
certificate of increase of capital-----	57
instructions for increase of capital-----	52
proxy for special meeting of shareholders-----	53
resolution of shareholders providing for increase of capital-----	56
shareholders' rights of, in connection with increase of capital-----	54-56
dividend authority to credit dividend upon subscription to	
new stock-----	56
subscription to new stock, form for-----	55
subscription to new stock, right to subscribe-----	55
subscription warrants-----	55
subscription warrants, assignment of-----	55
organization of national bank—	
capital, minimum-----	7
cash, payment to be in-----	16
certificate, form of certificate of first installment-----	17
certificate of stock, issuance of, to whom and when-----	9
certificate of stock, temporary-----	10
payment of capital or converted State bank, form of-----	29
payment of first installment-----	16
payment of other installments-----	19
payment of subscriptions, enforcement of-----	20
reduction of capital-----	57-60
instructions for reduction of capital-----	57
notice of meeting of shareholders-----	58
proxy for special meeting of shareholders-----	58
resolution for reduction of capital-----	59
Certificates:	
capital impairment of, certificate covering payment of assessment-----	63
capital increase of, form of certificate-----	57
capital payment of, certificate of-----	17
capital payment of installments, certificate of-----	19
commencement of business, comptroller's certificate authorizing-----	18
comptroller's certificate, publication of-----	18
expiration of corporate existence, certificate of-----	104
insurance agency, certificate covering-----	122
officers' and directors', before commencing business-----	17
stock certificates—to whom issued-----	14
Change of name and location:	
provisions relative to-----	70
Charter. (See Certificate, Corporate Existence, Extension of Corporate Existence, and Liquidation.)	
Circulating notes:	
denominations and amounts issuable-----	33
order for-----	33, 66



Circulating notes—Continued.	Page.
plates, cost of-----	33
retirement of, under section 18, Federal Reserve Act-----	32
tax on-----	31
Collection:	
deposit of bills for collection with Federal Reserve Bank-----	127
Commencement of business:	
certificate of authority to-----	18
Consolidation of national banks:	
consolidation under act of Nov. 7, 1918-----	89-93
agreement to consolidate-----	89
bonds—transfer of-----	93
instructions-----	89
resolution of shareholders-----	91
consolidation when one bank is placed in liquidation—instruction----	94
circulation—assumption of liability for-----	95
Conversion of State banks:	
application to convert State bank into a national bank-----	23
approval of application to convert. Instructions-----	25
articles of association-----	26
authority for conversion-----	26
certificate of payment of capital-----	29
directors and officers-----	29
examination of State bank converting-----	24
instructions relative to conversion of State banks into national banks--	22
organization certificate-----	28
Corporate existence:	
certificate of expiration of-----	104
extension of-----	64-69
liquidation upon expiration of-----	103
reextension of-----	69, 70
Cumulative voting:	
not permissible-----	72
Deposits:	
funds, notes or bills by member bank with Federal Reserve Bank---	127
payment of interest on authorized-----	118
Directors:	
appointment of directors-----	34
articles of association may name board-----	11
articles of association must specify number-----	11
by-laws, general form of, to be adopted by-----	44
dividends, declaration of, by-----	36, 83
election of directors-----	34
examination by directors-----	47
interest on deposits. Directors to receive no greater interest than paid to other depositors-----	41
interlocking directorates. When forbidden-----	42, 43
liability of directors for assenting to excessive loans-----	51
liability of directors for making and publishing false reports-----	49
liability of directors for mismanagement-----	50
liquidating agent under directors-----	99
loans by bank to any one person, firm, or corporation, limit of-----	35
number of directors-----	11, 34

Directors—Continued.	Page.
oath of directors.....	35
officers, appointment of.....	34
officers, directors are.....	72
Penalties—	
embezzlement .....	38
fee or commission for making loan, penalty for taking.....	40
false entries.....	38
falsely certifying check.....	37
loans to national bank examiners.....	39
political contribution, making.....	39
trust funds, loan of.....	42
violation of provisions of National Bank act.....	37
violation of provisions of section 22, Federal Reserve act.....	41
powers of directors.....	34
qualifications of directors.....	35
quorum of.....	71
Securities purchase or sale to directors of securities by bank.....	40
shareholders' votes of, in election of directors of association.....	72
State banks, power and duties of, on conversion.....	22
term of office.....	35
vacancies, how filled .....	35
Dividends:	
declaration of.....	36, 83
Election:	
directors by shareholders.....	14, 72
officers by directors.....	16
Examinations:	
directors, examination by.....	47—49
extension examination for.....	68
foreign branches examination of.....	108
organizing bank examination of.....	8
State bank converting examination of.....	24
trust department examination of.....	112
Examiners:	
compensation, examiner not to perform any service for compensa- tion for any bank or officer.....	40
embezzlement, abstraction, or willful misapplication of funds by penalty for.....	38
gratuity to examiner prohibited.....	39
information about bank not to be disclosed by examiner without per- mission of comptroller.....	40
loans to examiner prohibited.....	39
Expense:	
examination, special.....	68
plates.....	33, 67
Expiration of charter:	
certificate of.....	104
liquidation as a result of.....	103
publication of notice of.....	104
Extension of corporate existence:	
administrators, executors, trustees, guardians, or corporation signing for.....	67
amendments for.....	65

## Extension of corporate existence—Continued.

	Page.
attorney power of form for.....	66
attorney power of shareholders may authorize by.....	68
bonds transfer of not necessary in case of.....	68
circulation notes issuance of in case of.....	68
examination before.....	68
reextension authorized.....	69
shareholders owning at least two-thirds of stock must consent to....	64
shareholders not consenting to be paid for their stock.....	68
shareholders dissenting withdrawal of.....	68
Shares, fractional.....	60
Federal Reserve Banks, deposits and rediscounts with:	
acceptances and limitations thereof; rediscounts of by Federal Re-	
serve Bank for member bank.....	128
acceptance of foreign drafts or bills of exchange.....	130
deposit of bills for collection by member bank in Federal Reserve	
Bank.....	126
deposit of funds by member bank in Federal Reserve Bank.....	127
deposit of notes by member bank in Federal Reserve Bank.....	127
Loans by Federal Reserve Bank to member bank.....	131
Rediscounts by Federal Reserve Bank for member bank.....	128, 129
Rediscount of paper secured by bonds or notes of the United States	
issued since April 24, 1917.....	129
War Finance Corporation, purchase and discount by Federal Reserve	
Banks of obligations secured by bonds of.....	130
Increase of capital—See Capital, increase of.	
Insurance agency:	
certificate covering insurance agency.....	122
insurance agent, when national bank may act as.....	120
regulations governing national banks.....	120
statutory provisions.....	119
Interest:	
bonds deposited, how paid.....	31
deposits, interest on authorized.....	118
directors, interest paid on deposits of.....	41
rate of which may be charged.....	82
Lawful money to be deposited:	
liquidating associations, when.....	96
Liquidating bank:	
assumption of liability for circulation of.....	95
Liquidation:	
agent, appointment and powers of.....	99
consolidation, liquidation for.....	94
corporate existence, expiration of.....	103
instructions for.....	96
notice of.....	98
officers, election of.....	103
reports of liquidating agent, forms for.....	100
resolution for.....	97
Loans by Federal Reserve Banks to member banks.....	131
Location, change of.....	70
Meetings:	
shareholders.....	72
notice of.....	72

Minimum :	Page.
capital stock, amount of_____	7
Name :	
change of_____	70
Notice :	
liquidation _____	98
meetings, general_____	72
Oath. ( <i>See Directors.</i> )	
Officers of association :	
bonds of_____	45
election of_____	14, 15, 16, 44
proxy officer, can not act as_____	72
certificate of, before bank authorized to commence business_____	17
certificate of, form of_____	17
Organization of national bank :	
application to organize_____	5
appointment of officers_____	16
approval of application. Instructions_____	8
articles of association_____	10
articles of association, parties to, to be natural persons_____	10
capital, payment of_____	16
capital required_____	7
certificate of authority to commence business_____	18
commencement of business_____	19
directors, election and oath of_____	14
investigation by national bank examiner_____	8
organization certificate—	
acknowledgment of_____	13
association to have succession for 20 years from date of_____	13
execution of, in duplicate_____	13
form of_____	13
guardian or trustee, parties to_____	14
order or association, parties to_____	14
women, married, parties to_____	14
organization of national bank to succeed a State bank_____	20
payment of deferred installments on capital_____	19
promoters, no fees allowed to_____	5, 7
subscriptions to stock_____	9
Penalties :	
embezzlement_____	38
fee or commission for making loan, penalty for taking_____	40
false entries_____	38
falsely certifying check_____	37, 86
loans to national bank examiners_____	39
political contribution, making_____	39
reports, penalty for failure to make_____	75
violation of provisions of national bank act_____	37
violation of provisions of section 22 Federal reserve act_____	41
Plates, cost of_____	33, 67
Powers of national banks :	
abstraction, penalty for_____	87
bills of exchange, acceptance of_____	78, 129
bonds, authority to withdraw_____	32



Powers of national banks—Continued.	Page.
bonds, withdrawal of-----	32
capital, withdrawal of, unearned dividends prohibited-----	85
charter, forfeiture of-----	88
checks, false certification of-----	86
Circulating notes, issuance of-----	33
circulating notes, use of-----	85
contributions, political-----	87
corporate powers of associations-----	76
depositories of public moneys, National banking associations to be--	79
directors, individual liability of-----	88
dividends, declaration of-----	83
drafts or bills of exchange, acceptance of-----	78, 129
embezzlement, penalty for-----	87
false entries, penalties for-----	87
indebtedness of bank-----	84
insurance agent, national bank acting as-----	119-122
interest, rate of, which may be charged-----	82
jurisdiction of suits by or against national banks-----	83
liabilities to an association which may be incurred by any one person, company, etc.-----	83
notes, issuance of uncurrent-----	85
notes, United States not to be held as collateral-----	85
real estate, loans on improved-----	77
real estate, national bank as broker or agent in making or procuring loans on real estate-----	122-126
real property, power to hold-----	79
reserve requirements under section 19 of Federal Reserve act as amended. Section 20 of Federal Reserve act and act of April 24, 1917-----	80-82
Alaska—Reserve requirements for national banks located in Alaska or outside the continental United States-----	81
demand and time deposits defined. Reserve requirements-----	80
member bank forbidden to keep on deposit with nonmember bank a sum in excess of 10 per cent of its own capital and surplus or to secure discounts for nonmember banks-----	81
redemption fund not counted as reserve-----	82
reserve requirements for banks in reserve cities-----	80
reserve requirements for banks in central reserve cities-----	81
reserve requirements for banks not in reserve cities-----	80
reserve requirements—how estimated-----	81
United States deposits, no reserve required to be held against-----	82
withdrawal of reserve by member bank-----	81
savings department-----	118
stock—Loans on or purchase of own stock forbidden-----	84
stock—Purchase of stock in other corporations unlawful-----	84
trust company powers of national banks-----	109-117
usury, penalty for-----	83
violation of the national bank act, penalty for-----	88
willful misapplication, penalty for-----	87
Promoters, no fees allowed-----	5, 7

<b>Proxy :</b>	Page.
director, officer, clerk, teller, and bookkeeper not competent to act as	72
form of	72
shareholders may vote by	53, 58, 72
<b>Publication :</b>	
certificate of authority to commence business	18
liquidation, notice of	98
meetings of shareholders	72
<b>Qualifications :</b>	
directors of association	16
Rediscunts by Federal Reserve Bank for member bank	128, 129, 130
Reduction of capital. (See Capital, reduction of.)	
<b>Reextension of charter :</b>	
laws and instructions relative to	69
<b>Reports to comptroller :</b>	
condition, report of	74
dividends, report of	75
penalty for failure to make reports	75
shareholders, lists of	74
verification of reports	75
<b>Reserve requirements under section 19 of Federal Reserve act as amended.</b>	
<b>Section 20 of Federal Reserve act and act April 24, 1917 :</b>	
Alaska—Reserve requirements for national banks located in Alaska	
or outside the continental United States	81
demand and time deposits defined. Reserve requirements	80
member bank forbidden to keep on deposit with nonmember bank a	
sum in excess of 10 per cent of its own capital and surplus or to	
secure discounts for nonmember banks	81
redemption fund not counted as reserve	82
reserve requirements for banks in reserve cities	80
reserve requirements for banks in central reserve cities	81
reserve requirements for banks not in reserve cities	80
reserve requirements—how estimated	81
United States deposits—no reserve required to be held against	82
withdrawal of reserve by member bank	81
<b>Savings department :</b>	
operation of	118
<b>Shareholders :</b>	
delinquent, sale of stock of	64
disqualified from voting when	72
dissenting to extension or reextension may withdraw	68
extension of corporate existence by	64
guardians as shareholders	14
lists of, to be filed with comptroller	74
meetings of	72
proxy may vote by	72
reextension of corporate existence by	69
rights of shareholders in connection with increase of capital	54-56
shares fractional	60
shares of shareholders dissenting from extension to be paid for	68
trustees, as shareholders	14
votes of shareholders	72
women, married, as shareholders	14

State banks:	Page.
conversion of_____	22-30
purchase of assets from_____	21
reorganization of, as national banks_____	20
Stock subscription:	
suggestion relative to_____	-9, 10
Succession:	
period of_____	13
Surplus. ( <i>See also Increase of capital; Reduction of capital.</i> )	
use of, and of other profits, on increase of capital_____	56
Taxes:	
circulation_____	31
Temporary certificate of stock:	
assignment of_____	10
form of_____	10
Title:	
application for reservation of_____	5
reservation of, for applicants_____	5
change of_____	70
Trust companies:	
conversion of_____	22
Trust company powers of national bank	
Application of national bank_____	113
Application (supplementary) of national bank_____	115
Issuance of permit; instructions_____	113
Loans of trust funds to directors, etc_____	42, 110
Permit issued by Federal Reserve Board_____	117
Regulations of Federal Reserve Board—	
Applications_____	111
Books and accounts_____	112
Custody of trust securities and investments_____	111
Departments, separate_____	111
Deposit of funds awaiting investment or distribution_____	111
Examinations_____	112
Investment of trust funds_____	111
Permits, revocation of_____	113
Regulations, changes in_____	113
State laws, conformity with_____	112
Statutory provisions_____	109
Voluntary liquidation—see Liquidation.	
Voting:	
Elections and voting at meetings of shareholders_____	72
War Finance Corporation:	
purchase and discounts by Federal Reserve Bank of obligations se-	
cured by bonds of_____	130

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